

**State of Rhode Island**  
and Providence Plantations

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and Providence Plantations

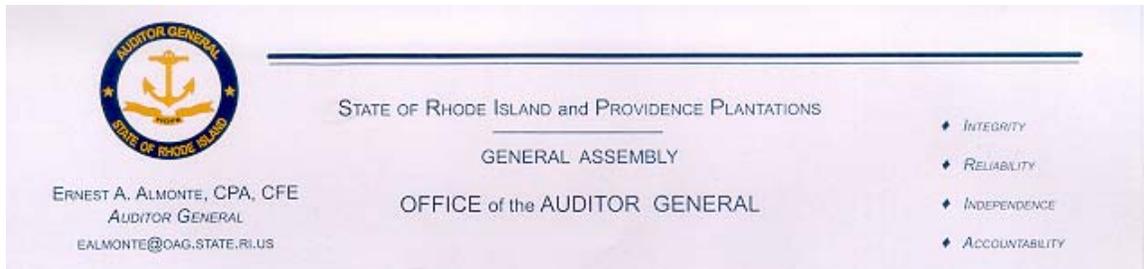
**SINGLE AUDIT REPORT**

**Fiscal Year Ended June 30, 2001**

**Ernest A. Almonte, CPA, CFE**  
**Auditor General**

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**Office of the Auditor General**  
General Assembly



March 13, 2002

Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly,  
State of Rhode Island and Providence Plantations:

I am pleased to submit the State's *Single Audit Report* for the fiscal year ended June 30, 2001. This audit was required by both state law (sections 22-13-4 and 35-7-10 of the General Laws) and the federal Single Audit Act.

The *Single Audit Report* includes our reports on (1) the general-purpose financial statements of the State of Rhode Island, (2) compliance and on internal control over financial reporting, and (3) compliance with requirements applicable to each major federal program and internal control over compliance. A detailed Schedule of Expenditures of Federal Awards is also included as outlined in the Table of Contents on the next page. Findings and related recommendations that are required to be reported in the *Single Audit Report* are included in the Schedule of Findings and Questioned Costs. A corrective action plan, which addresses each current year finding, has been prepared by the State and is included herein. Additionally, the status of prior year findings has also been prepared by the State and is included herein.

Respectfully submitted,

Ernest A. Almonte, CPA, CFE  
Auditor General

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**General – Purpose  
Financial Statements**



**General - Purpose  
Financial Statements**

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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

## INDEPENDENT AUDITOR'S REPORT

Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly,  
State of Rhode Island and Providence Plantations:

We have audited the accompanying general-purpose financial statements of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2001 as listed in the Table of Contents. These general-purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of certain component units which represent 100% of the assets and revenues of the discretely presented governmental component units; 99% of the assets and 95% revenues of the discretely presented proprietary component units; and 1% of the assets and revenues of the special revenue funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

The general-purpose financial statements do not include the statement of the general fixed assets account group which should be included in order to conform with accounting principles generally accepted in the United States of America. The State has not completed the accumulation of historical information as to the cost and classification of its investment in general fixed assets. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, based on our audit and the reports of other auditors, except for the effect on the general-purpose financial statements of the omission of the statement of the general fixed assets account group, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the State at June 30, 2001, and the results of its operations, the cash flows of its proprietary fund types, nonexpendable trust funds and proprietary component units, and the changes in plan net assets of its pension trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(V), the State adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions."

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2002 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the State, taken as a whole. The Schedules of Funding Progress as listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.



Ernest A. Almonte, CPA, CFE  
Auditor General

February 15, 2002

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**COMBINED BALANCE SHEET**

**ALL FUND TYPES, ACCOUNT GROUPS, AND DISCRETELY PRESENTED COMPONENT UNITS**

June 30, 2001

(Expressed in thousands)

Assets	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise (State Lottery)	Internal Service
Cash and cash equivalents	\$ 211,089	\$ 102,609	\$ 23,660	\$ 141,570	\$ 4,799	\$ 3,613
Funds on deposit with fiscal agent			258	32,134		
Investments				16,343	1,840	
Receivables (net)	194,846	51,179			6,005	5,964
Due from other funds	73,275	20,532	29	19,435		6,393
Due from component units	5,112	1,647				
Due from primary government						
Due from other governments and agencies (net)	125,908	38,701		3,157		
Inventories					736	2,299
Loans to other funds	5,845					
Fixed assets (net)					513	4,344
Other assets	1,210	28		3,525	427	500
Amount available in debt service reserves						
Amount to be provided for retirement of general long-term obligations						
Rentals due						
<b>Total assets</b>	<b>\$ 617,285</b>	<b>\$ 214,696</b>	<b>\$ 23,947</b>	<b>\$ 216,164</b>	<b>\$ 14,320</b>	<b>\$ 23,113</b>
<b>Liabilities and Fund Equity</b>						
<b>Liabilities:</b>						
Cash overdraft	\$ 3,085	\$	\$	\$ 11,622	\$ 433	\$ 472
Vouchers and accounts payable	268,774	27,591		4,472	5,735	6,872
Due to other funds	12,913	48,078	23,213	40,207	1,461	1,413
Due to component units	1,838	2,162		1,200		
Due to primary government						
Due to other governments and agencies		831				
Accrued liabilities	23,353	2,028			476	2,236
Deferred revenue	15,772	541		66	141	
Loans from other funds				2,995		2,850
Other current liabilities	23,405			3,755		
Compensated absences						
Notes payable						
Loans payable						
Obligations under capital leases						1,343
Bonds payable						
Other long-term liabilities					5,967	
<b>Total liabilities</b>	<b>349,140</b>	<b>81,231</b>	<b>23,213</b>	<b>64,317</b>	<b>14,213</b>	<b>15,186</b>
<b>Fund equity:</b>						
Contributed capital						
Retained earnings:						
Reserved						1,456
Unreserved (deficit)					107	6,471
Fund balances:						
Reserved	136,963	310,625	734	57,182		
Unreserved:						
Designated		32,955		94,481		
Undesignated (deficit)	131,182	(210,115)		184		
<b>Total fund equity</b>	<b>268,145</b>	<b>133,465</b>	<b>734</b>	<b>151,847</b>	<b>107</b>	<b>7,927</b>
<b>Total liabilities and fund equity</b>	<b>\$ 617,285</b>	<b>\$ 214,696</b>	<b>\$ 23,947</b>	<b>\$ 216,164</b>	<b>\$ 14,320</b>	<b>\$ 23,113</b>

The accompanying notes are an integral part of these financial statements.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

Fiduciary Fund Types	Account Group	TOTAL PRIMARY GOVERNMENT (Memorandum only)	Component Units		TOTAL REPORTING ENTITY (Memorandum only)		
			Trust and Agency	General Long-term Debt		Governmental	Proprietary
\$ 17,620	\$	\$ 504,960	\$ 55,116	\$ 460,028	\$ 1,020,104		
293,712		326,104			326,104		
6,622,622		6,640,805	1,165	1,314,767	7,956,737		
60,549		318,543	38,814	2,168,935	2,526,292		
7,707		127,371			127,371		
		6,759			6,759		
			2,147	3,053	5,200		
1,674		169,440		25,660	195,100		
		3,035	2,830	1,968	7,833		
		5,845			5,845		
9,121		13,978	19,237	969,425	1,002,640		
1,545		7,235	38,590	163,203	209,028		
	19,922	19,922	800		20,722		
	1,571,782	1,571,782	121,688		1,693,470		
				7,815	7,815		
<u>\$ 7,014,550</u>	<u>\$ 1,591,704</u>	<u>\$ 9,715,779</u>	<u>\$ 280,387</u>	<u>\$ 5,114,854</u>	<u>\$ 15,111,020</u>		
\$	\$	\$ 15,612	\$ 5,830	\$	\$ 21,442		
5,926		319,370	32,711	38,892	390,973		
86		127,371			127,371		
		5,200			5,200		
			1,801	4,958	6,759		
1,110		1,941		18,269	20,210		
		28,093		85,094	113,187		
		16,520	12,540	10,013	39,073		
		5,845			5,845		
506,762		533,922	4,830		538,752		
	65,574	65,574	32,598		98,172		
			2,272	17,005	19,277		
			861	52,843	53,704		
	442,275	443,618	21,624	34,681	499,923		
	1,035,399	1,035,399	104,941	3,049,165	4,189,505		
	48,456	54,423		306,145	360,568		
<u>513,884</u>	<u>1,591,704</u>	<u>2,652,888</u>	<u>220,008</u>	<u>3,617,065</u>	<u>6,489,961</u>		
				369,066	369,066		
		1,456	15,127	734,046	750,629		
		6,578		394,677	401,255		
6,497,629		7,003,133	73,035		7,076,168		
		127,436			127,436		
3,037		(75,712)	(27,783)		(103,495)		
<u>6,500,666</u>		<u>7,062,891</u>	<u>60,379</u>	<u>1,497,789</u>	<u>8,621,059</u>		
<u>\$ 7,014,550</u>	<u>\$ 1,591,704</u>	<u>\$ 9,715,779</u>	<u>\$ 280,387</u>	<u>\$ 5,114,854</u>	<u>\$ 15,111,020</u>		

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

### ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS, AND DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS

For the Fiscal Year Ended June 30, 2001

(Expressed in thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Revenues:</b>				
Taxes	\$ 2,011,949	\$ 270,487	\$	\$
Licenses, fines, sales, and services	205,043	4,561		7,239
Departmental restricted revenue	77,333	6		
Federal grants	1,213,491	194,552		8,642
Income from investments	7,360	4,929	526	11,777
Other revenues	49,274	4,291		
Total revenues	3,564,450	478,826	526	27,658
<b>Other financing sources:</b>				
Bonds and notes issued				149,915
Lease certificates of participation issued				31,330
Operating transfers in	291,988	49,178		44,706
Operating transfers from primary government				
Operating transfers from component units	36,969	1,896	115	
Other	67,531		1,324	5,645
Total revenues and other financing sources	3,960,938	529,900	1,965	259,254
<b>Expenditures:</b>				
Current:				
General government	257,505	10,415		
Human services	1,944,654	132,808		
Education	63,324			
Public safety	279,626			
Natural resources	52,795	3,688		
Transportation		53,390		
Capital outlays	30,979	184,987		18,255
Intergovernmental	848,126	927		7,717
Debt service:				
Principal	79,394			
Interest and other charges	64,849		974	10,192
Total expenditures	3,621,252	386,215	974	36,164
<b>Other financing uses:</b>				
Payment to refunded bond escrow agent				123,020
Operating transfers out	50,461	62,154	2,775	80,656
Operating transfers to primary government				
Operating transfers to component units	242,823	62,796		38,539
Other				
Total expenditures and other financing uses	3,914,536	511,165	3,749	278,379
Revenues and other financing sources over (under) expenditures and other financing uses	46,402	18,735	(1,784)	(19,125)
Net gain from proprietary operations				
Fund balances, July 1, 2000, as restated	221,743	114,730	2,518	170,972
Fund balances, June 30, 2001	\$ 268,145	\$ 133,465	\$ 734	\$ 151,847

The accompanying notes are an integral part of these financial statements.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

<b>Fiduciary Fund Types Expendable Trust</b>	<b>TOTAL PRIMARY GOVERNMENT (Memorandum only)</b>	<b>Component Units Governmental</b>	<b>TOTAL REPORTING ENTITY (Memorandum only)</b>
\$ 139,847	\$ 2,422,283	\$	\$ 2,422,283
	216,843	192,807	409,650
	77,339		77,339
1,478	1,418,163	68,752	1,486,915
18,720	43,312		43,312
1,520	55,085	41,070	96,155
<b>161,565</b>	<b>4,233,025</b>	<b>302,629</b>	<b>4,535,654</b>
	149,915	9,339	159,254
	31,330		31,330
	385,872		385,872
		198,935	198,935
	38,980		38,980
5,482	79,982	350	80,332
<b>167,047</b>	<b>4,919,104</b>	<b>511,253</b>	<b>5,430,357</b>
	267,920		267,920
151,075	2,228,537		2,228,537
	63,324	484,168	547,492
	279,626		279,626
	56,483		56,483
	53,390		53,390
	234,221	31,268	265,489
	856,770		856,770
	79,394	624	80,018
	76,015	2,504	78,519
<b>151,075</b>	<b>4,195,680</b>	<b>518,564</b>	<b>4,714,244</b>
	123,020		123,020
	196,046		196,046
		4,373	4,373
	344,158		344,158
3,903	3,903	33	3,936
<b>154,978</b>	<b>4,862,807</b>	<b>522,970</b>	<b>5,385,777</b>
12,069	56,297	(11,717)	44,580
		13,880	13,880
320,038	830,001	58,216	888,217
<b>\$ 332,107</b>	<b>\$ 886,298</b>	<b>\$ 60,379</b>	<b>\$ 946,677</b>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS****COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY****ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND DISCRETELY PRESENTED PROPRIETARY COMPONENT UNITS**

For the Fiscal Year Ended June 30, 2001

*(Expressed in thousands)*

	Proprietary Fund Types	
	Enterprise (State Lottery)	Internal Service
<b>Operating revenues:</b>		
Charges for services	\$ 978,020	\$ 97,466
Interest income		
Other operating income		861
Total operating revenues	978,020	98,327
<b>Operating expenses:</b>		
Personal services	3,146	13,088
Supplies, materials, and services	132,565	82,231
Interest expense		
Grant, scholarships, and contract programs		
Prize awards	662,975	
Depreciation, depletion, and amortization	217	732
Other operating expenses		
Total operating expenses	798,903	96,051
Operating income (loss)	179,117	2,276
<b>Nonoperating revenues (expenses):</b>		
Income from investments	969	44
Grants		
Gain on sale of property		
Interest expense		(89)
Other nonoperating revenues	684	
Total nonoperating revenue (expenses)	1,653	(45)
Income (loss) before transfers	180,770	2,231
Operating transfers in		317
Operating transfers out	(180,842)	
Operating transfers from primary government		
Operating transfers to primary government		
Income (loss) before extraordinary items	(72)	2,548
Extraordinary items		
Net income (loss)	(72)	2,548
<b>Other changes in fund equity:</b>		
Increase in contributed capital		
Other		
Net increase (decrease) in fund equity	(72)	2,548
Fund equity, July 1, 2000, as restated	179	5,379
Fund equity, June 30, 2001	\$ 107	\$ 7,927

*The accompanying notes are an integral part of these financial statements.*

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

<b>Fiduciary Fund Types Nonexpendable Trust</b>	<b>TOTAL PRIMARY GOVERNMENT (Memorandum only)</b>	<b>Component Units Proprietary</b>	<b>TOTAL REPORTING ENTITY (Memorandum only)</b>
\$ 50	\$ 1,075,536	\$ 202,312	\$ 1,277,848
(167)	(167)	194,066	193,899
	861	29,108	29,969
<b>(117)</b>	<b>1,076,230</b>	<b>425,486</b>	<b>1,501,716</b>
	16,234	104,970	121,204
209	215,005	116,583	331,588
		130,268	130,268
		11,744	11,744
	662,975		662,975
	949	49,567	50,516
		26,345	26,345
<b>209</b>	<b>895,163</b>	<b>439,477</b>	<b>1,334,640</b>
<b>(326)</b>	<b>181,067</b>	<b>(13,991)</b>	<b>167,076</b>
	1,013	14,926	15,939
		(1,361)	(1,361)
		432	432
	(89)	(38,346)	(38,435)
	684	21,900	22,584
	<b>1,608</b>	<b>(2,449)</b>	<b>(841)</b>
<b>(326)</b>	<b>182,675</b>	<b>(16,440)</b>	<b>166,235</b>
	317		317
	(180,842)		(180,842)
		81,593	81,593
		(36,494)	(36,494)
<b>(326)</b>	<b>2,150</b>	<b>28,659</b>	<b>30,809</b>
		9	9
<b>(326)</b>	<b>2,150</b>	<b>28,668</b>	<b>30,818</b>
		7,488	7,488
		472,947	472,947
<b>(326)</b>	<b>2,150</b>	<b>509,103</b>	<b>511,253</b>
3,362	8,920	988,686	997,606
<b>\$ 3,036</b>	<b>\$ 11,070</b>	<b>\$ 1,497,789</b>	<b>\$ 1,508,859</b>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**COMBINED STATEMENT OF CASH FLOWS**

**ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS, AND DISCRETELY PRESENTED PROPRIETARY COMPONENT UNITS**

For the Fiscal Year Ended June 30, 2001

(Expressed in thousands)

	Proprietary Fund Types		Fiduciary	TOTAL	Component	TOTAL
	Enterprise (State Lottery)	Internal Service	Nonexpendable Trust	PRIMARY GOVERNMENT (Memorandum only)	Units Proprietary	REPORTING ENTITY (Memorandum only)
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 982,954	\$ 95,856	\$ 50	\$ 1,078,860	\$ 580,159	\$ 1,659,019
Cash received from grants		661		661	1,885	2,546
Collections from loans and receivership assets					16,927	16,927
Cash payments to suppliers for goods and services	(3,470)	(83,209)	(209)	(86,888)	(135,479)	(222,367)
Cash payments to employees for services	(3,104)	(13,088)		(16,192)	(94,161)	(110,353)
Loans issued		(1,113)		(1,113)	(110,419)	(111,532)
Cash payments for claims, grants, and scholarships					(177,641)	(177,641)
Other operating revenue	895	1,674		2,569	16,249	18,818
Other operating expenses	(802,018)			(802,018)	(1,564)	(803,582)
Net cash provided by (used for) operating activities	175,257	781	(159)	175,879	95,956	271,835
<b>Cash flows from noncapital financing activities:</b>						
Proceeds from issuance of long-term debt					349,907	349,907
Payment of bonds and notes					(255,418)	(255,418)
Payment of interest					(132,125)	(132,125)
Proceeds from grants					17,212	17,212
Loans from other funds		2,463		2,463		2,463
Repayment of loans to other funds		(2,983)		(2,983)		(2,983)
Collection of loans and mortgages					318	318
Contract revenue					4,083	4,083
Operating transfers out	(192,282)			(192,282)		(192,282)
Operating transfers from primary government					80,693	80,693
Operating transfers to primary government					(47,686)	(47,686)
Grants issued					(1,510)	(1,510)
Negative cash balance implicitly financed	433	472		905	(361)	544
Net cash provided by (used for) noncapital financing activities	(191,849)	(48)		(191,897)	15,113	(176,784)
<b>Cash flows from capital and related financing activities:</b>						
Principal paid on revenue bonds					(12,903)	(12,903)
Proceeds from issuance of long-term debt					1,900	1,900
Payment of interest		(89)		(89)	(38,181)	(38,270)
Payment of notes and loans					(9,747)	(9,747)
Payment of capital lease obligations		(448)		(448)	(723)	(1,171)
Payment of financing costs					(656)	(656)
Payment for the purchase of program rights					(497)	(497)
Acquisition of capital assets	(193)	(496)		(689)	(73,904)	(74,593)
Contributed capital		317		317	24,829	25,146
Proceeds from capital grants					23,580	23,580
Proceeds from sale of assets					1,846	1,846
Net cash provided by (used for) capital and related financing activities	(193)	(716)		(909)	(84,456)	(85,365)
<b>Cash flows from investing activities:</b>						
Purchase of investments			(731)	(731)	(675,128)	(675,859)
Proceeds from sale and maturity of investments	1,210		891	2,101	612,932	615,033
Interest on investments	969	44	114	1,127	67,049	68,176
Net cash provided by (used for) investing activities	2,179	44	274	2,497	4,853	7,350
Net increase (decrease) in cash and cash equivalents	(14,606)	61	115	(14,430)	31,466	17,036
Cash and cash equivalents, July 1, 2000	19,405	3,552	654	23,611	409,887	433,498
Cash and cash equivalents, June 30, 2001	\$ 4,799	\$ 3,613	\$ 769	\$ 9,181	\$ 441,353	\$ 450,534

The accompanying notes are an integral part of these financial statements.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

	Proprietary Fund Types		Fiduciary	TOTAL	Component	TOTAL
	Enterprise (State Lottery)	Internal Service	Fund Types Nonexpendable Trust	PRIMARY GOVERNMENT (Memorandum only)	Units Proprietary	REPORTING ENTITY (Memorandum only)
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>						
Operating income (loss)	\$ 179,117	\$ 2,276	\$ (326)	\$ 181,067	\$ (13,991)	\$ 167,076
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>						
Depreciation, depletion, and amortization	217	732		949	49,567	50,516
Interest on investments and other income	(1,170)		167	(1,003)	(58,565)	(59,568)
Interest expense and other charges					130,815	130,815
Provision for cost of scholarships					1,100	1,100
Landfill postclosure costs					(1,827)	(1,827)
(Increase) decrease in assets:						
Receivables	(1,154)	(3,026)		(4,180)	(34,355)	(38,535)
Inventories	68	(6)		62	114	176
Prepaid items		(500)		(500)	(131)	(631)
Other assets	1,868			1,868	(3,527)	(1,659)
Increase (decrease) in liabilities:						
Accounts payable and accrued expenses	(1,137)	1,305		168	13,367	13,535
Deferred revenue	(114)			(114)	(153)	(267)
Escrow deposits					13,542	13,542
Other liabilities	(2,438)			(2,438)		(2,438)
Subtotal	(3,860)	(1,495)	167	(5,188)	109,947	104,759
Net cash provided by (used for) operating activities	\$ 175,257	\$ 781	\$ (159)	\$ 175,879	\$ 95,956	\$ 271,835
<b>Noncash investing, capital, and financing activities:</b>						
Assets acquired through loan program	\$	\$	\$	\$	\$ 7,550	\$ 7,550
Interest capitalized					100	100
Land transfers					(837)	(837)
Total noncash transactions	\$	\$	\$	\$	\$ 6,813	\$ 6,813

**Cash and cash equivalents in the Fiduciary Fund Types on the Combined Balance Sheet include:**

Expendable Trust Funds	\$ 1,323
Pension Trust Funds	1,154
Agency Fund	14,374
Nonexpendable Trust Funds	769
Total	<u>\$ 17,620</u>

**Cash and cash equivalents for Proprietary Component Units on the Combined Balance Sheet include:**

Cash and cash equivalents from Statement of Cash Flow	\$ 441,353
R.I. Housing Mortgage Finance Corporation - Affordability Housing Trust	5,542
R.I. Higher Education Assistance Authority - CollegeBound <i>fund</i> Program Fund	6,312
R.I. Higher Education Assistance Authority - Federal Student Loan Reserve Fund	6,821
Total	<u>\$ 460,028</u>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL**

**GENERAL FUND AND BUDGETED SPECIAL REVENUE FUNDS**

For the Fiscal Year Ended June 30, 2001

(Expressed in thousands)

	General Fund		
	Budget	Actual	Variance
<b>Revenues:</b>			
Taxes	\$ 2,011,700	\$ 2,011,949	\$ 249
Licenses, fines, sales, and services	197,000	205,043	8,043
Departmental restricted revenue	52,273	77,333	25,060
Federal grants	1,288,036	1,213,491	(74,545)
Other revenues	57,500	56,634	(866)
Total revenues	3,606,509	3,564,450	(42,059)
<b>Other financing sources:</b>			
Operating transfers in	282,431	291,988	9,557
Operating transfers from component units	35,255	36,969	1,714
Other	72,152	67,531	(4,621)
Total revenues and other financing sources	3,996,347	3,960,938	(35,409)
<b>Expenditures:</b>			
Current:			
General government	271,521	257,505	14,016
Human services	1,980,267	1,944,654	35,613
Education	90,184	63,324	26,860
Public safety	290,371	279,626	10,745
Natural resources	65,842	52,795	13,047
Transportation			
Capital outlays	30,480	30,979	(499)
Intergovernmental	851,821	848,126	3,695
Debt service:			
Principal	81,397	79,394	2,003
Interest and other charges	62,739	64,849	(2,110)
Total expenditures	3,724,622	3,621,252	103,370
<b>Other financing uses:</b>			
Operating transfers out	45,160	50,461	(5,301)
Operating transfers to component units	237,695	242,823	(5,128)
Total expenditures and other financing uses	4,007,477	3,914,536	92,941
Revenues and other financing sources over (under) expenditures and other financing uses	(11,130)	46,402	57,532
Fund balances, July 1, 2000, as restated	221,743	221,743	
Fund balances, June 30, 2001	\$ 210,613	\$ 268,145	\$ 57,532

The accompanying notes are an integral part of these financial statements.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

<b>Budgeted Special Revenue Funds</b>			<b>Total (Memorandum Only)</b>		
<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
\$ 266,767	\$ 270,487	\$ 3,720	\$ 2,278,467	\$ 2,282,436	\$ 3,969
25,560	6	(25,554)	197,000	205,043	8,043
231,762	194,552	(37,210)	77,833	77,339	(494)
3,500	8,887	5,387	1,519,798	1,408,043	(111,755)
<u>527,589</u>	<u>473,932</u>	<u>(53,657)</u>	<u>4,134,098</u>	<u>4,038,382</u>	<u>(95,716)</u>
	45,290	45,290	282,431	337,278	54,847
			35,255	36,969	1,714
			72,152	67,531	(4,621)
<u>527,589</u>	<u>519,222</u>	<u>(8,367)</u>	<u>4,523,936</u>	<u>4,480,160</u>	<u>(43,776)</u>
6,159	5,490	669	277,680	262,995	14,685
128,000	132,808	(4,808)	2,108,267	2,077,462	30,805
			90,184	63,324	26,860
			290,371	279,626	10,745
			65,842	52,795	13,047
88,642	53,045	35,597	88,642	53,045	35,597
180,510	184,987	(4,477)	210,990	215,966	(4,976)
	756	(756)	851,821	848,882	2,939
			81,397	79,394	2,003
			62,739	64,849	(2,110)
<u>403,311</u>	<u>377,086</u>	<u>26,225</u>	<u>4,127,933</u>	<u>3,998,338</u>	<u>129,595</u>
56,100	62,154	(6,054)	101,260	112,615	(11,355)
72,388	61,924	10,464	310,083	304,747	5,336
<u>531,799</u>	<u>501,164</u>	<u>30,635</u>	<u>4,539,276</u>	<u>4,415,700</u>	<u>123,576</u>
(4,210)	18,058	22,268	(15,340)	64,460	79,800
4,900	112,632	107,732	226,643	334,375	107,732
<u>\$ 690</u>	<u>\$ 130,690</u>	<u>\$ 130,000</u>	<u>\$ 211,303</u>	<u>\$ 398,835</u>	<u>\$ 187,532</u>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**COMBINED STATEMENT OF PLAN NET ASSETS**

**PENSION TRUST FUNDS**

June 30, 2001

*(Expressed in thousands)*

	<b>Employees' Retirement System</b>	<b>Municipal Employees' Retirement System</b>	<b>State Police Retirement Benefits Trust</b>	<b>Judicial Retirement Benefits Trust</b>	<b>TOTAL (Memorandum only)</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 685	\$ 174	\$ 181	\$ 114	\$ 1,154
Receivables:					
Member contributions	11,467	1,489			12,956
Employer contributions	9,624	1,510			11,134
Due from other funds	7,569				7,569
Miscellaneous	1,341	195	6	4	1,546
Total receivables	30,001	3,194	6	4	33,205
Investments, at fair value:					
Equity in short-term investment fund	4,323	2,653			6,976
Equity in pooled trust	5,296,572	776,856	12,354	7,886	6,093,668
Plan specific investments	27,325				27,325
Total investments before lending activities	5,328,220	779,509	12,354	7,886	6,127,969
Invested securities lending collateral	381,179	55,908	889	568	438,544
Property and equipment, at cost, net of accumulated depreciation					
Line of Business System in Development	7,468	1,090	15	10	8,583
Computer Equipment (net of accumulated depreciation \$134,535)	468	68	1	1	538
Total Property and Equipment	7,936	1,158	16	11	9,121
Total assets	5,748,021	839,943	13,446	8,583	6,609,993
<b>Liabilities</b>					
Securities lending liability	381,179	55,908	889	568	438,544
Vouchers and accounts payable	5,164	743	12	8	5,927
Total liabilities	386,343	56,651	901	576	444,471
<b>Net assets held in trust for pension benefits</b>	<b>\$ 5,361,678</b>	<b>\$ 783,292</b>	<b>\$ 12,545</b>	<b>\$ 8,007</b>	<b>\$ 6,165,522</b>

*The accompanying notes are an integral part of these financial statements.*

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS**

**PENSION TRUST FUNDS**

For the Fiscal Year Ended June 30, 2001

(Expressed in thousands)

	<b>Employees' Retirement System</b>	<b>Municipal Employees' Retirement System</b>	<b>State Police Retirement Benefits Trust</b>	<b>Judicial Retirement Benefits Trust</b>	<b>TOTAL (Memorandum only)</b>
<b>Additions:</b>					
<b>Contributions:</b>					
Member contributions	\$ 120,115	\$ 15,858	\$ 615	\$ 330	\$ 136,918
Employer contributions	94,280	6,093	1,820	1,164	103,357
State contributions for teachers	35,365				35,365
Interest on service credits purchased	973	127			1,100
Total contributions	<u>250,733</u>	<u>22,078</u>	<u>2,435</u>	<u>1,494</u>	<u>276,740</u>
<b>Investment income:</b>					
Net depreciation in fair value of investments	(833,072)	(121,991)	(1,756)	(1,133)	(957,952)
Interest	135,380	19,624	279	180	155,463
Dividends	29,830	4,367	63	40	34,300
Other investment income	19,180	2,807	39	25	22,051
	<u>(648,682)</u>	<u>(95,193)</u>	<u>(1,375)</u>	<u>(888)</u>	<u>(746,138)</u>
Less investment expense	20,181	2,953	42	27	23,203
Net loss from investing activities	<u>(668,863)</u>	<u>(98,146)</u>	<u>(1,417)</u>	<u>(915)</u>	<u>(769,341)</u>
<b>Securities Lending:</b>					
Securities lending income	11,976	1,756	28	18	13,778
Less securities lending expense	(10,931)	(1,603)	(26)	(16)	(12,576)
Net securities lending income	<u>1,045</u>	<u>153</u>	<u>2</u>	<u>2</u>	<u>1,202</u>
Total net investment loss	<u>(667,818)</u>	<u>(97,993)</u>	<u>(1,415)</u>	<u>(913)</u>	<u>(768,139)</u>
Total additions	<u>(417,085)</u>	<u>(75,915)</u>	<u>1,020</u>	<u>581</u>	<u>(491,399)</u>
<b>Deductions:</b>					
Retirement benefits	365,997	33,587		77	399,661
Refund of contributions	6,027	1,337			7,364
Administrative expense	2,663	386	2	1	3,052
Total deductions	<u>374,687</u>	<u>35,310</u>	<u>2</u>	<u>78</u>	<u>410,077</u>
Net increase (decrease)	(791,772)	(111,225)	1,018	503	(901,476)
<b>Net assets held in trust for pension benefits</b>					
July 1, 2000	6,153,450	894,517	11,527	7,504	7,066,998
June 30, 2001	<u>\$ 5,361,678</u>	<u>\$ 783,292</u>	<u>\$ 12,545</u>	<u>\$ 8,007</u>	<u>\$ 6,165,522</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**

**Notes to General-Purpose Financial Statements**

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# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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### Note 1. Summary Of Significant Accounting Policies

#### A. Basis of Presentation

The accompanying general-purpose financial statements have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), except as described in Note 1(D). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," in the absence of specific guidance from GASB pronouncements, pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 have been followed.

#### B. Reporting Entity

The general-purpose financial statements include all funds and account groups of the State of Rhode Island and Providence Plantations (the state) and its component units. GASB defines component units as legally separate entities for which a primary government (the state) is financially accountable or, if not financially accountable, their exclusion would cause the state's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the state to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the state. The state has considered all agencies, boards, commissions, public benefit authorities and corporations, the state university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices.

#### Blended Component Units

These component units are entities which are legally separate from the state, but are so intertwined with the state that they are in substance, the same as the state. They are reported as part of the state and blended into the appropriate funds.

**State Lottery Fund (Lottery)** - This fund is used to account for the revenues generated by the State Lottery Commission in conducting various lottery games. According to statute, earnings after allocation for prize awards and payment of expenses shall be transferred to the state's general fund. For more detailed information, a copy of the financial statements can be obtained by writing to the State Lottery Commission, 1425 Pontiac Avenue, Cranston, RI 02920.

**Rhode Island Refunding Bond Authority (RIRBA)** - This authority was created by law for the purpose of loaning money to the state to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the state abolished the R.I. Public Buildings Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. It is blended into the Capital Projects Funds and the General Long-Term Debt Account Group. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Refunding Bond Authority, State House, Providence, RI 02903.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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**Rhode Island Economic Policy Council (RIEPC)** - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with state officials to identify issues facing the state's economy, to develop and recommend creative strategies and policies to address them, to advise the state legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. It is blended into the Special Revenue Funds. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Policy Council, 15 Westminster Street Suite 615, Providence, RI 02903-2417.

### **Discretely Presented Component Units**

Discretely presented component units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. Discretely presented component units are:

### **Governmental Component Units**

**University and Colleges** - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through state appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to the University of Rhode Island, Carlotti Administration Building, Kingston, RI 02881; Rhode Island College, Mount Pleasant Avenue, Providence, RI 02908; and Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

**Central Falls School District** - The Rhode Island General Assembly passed an act which provided for the state to assume an administrative takeover of the Central Falls School District. The Governor appointed a special state administrator who replaced the school committee. The state administrator reports to the Commissioner of Elementary and Secondary Education. The District's purpose is to provide elementary and secondary education to residents of the City of Central Falls. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 21 Hadley Avenue, Central Falls, RI 02863.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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### Proprietary Component Units

**Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)** - This Corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the state. It has the power to issue notes and bonds to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721.

**Rhode Island Student Loan Authority (RISLA)** - This Authority, established in 1981, was created in order to provide a statewide student loan program through the acquisition of student loans. It has the power to issue bonds and notes, payable solely from its revenues. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Student Loan Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

**Rhode Island Turnpike and Bridge Authority (RITBA)** - This Authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437.

**Rhode Island Economic Development Corporation (RIEDC)** - This Corporation was created in 1995 as a result of a merger by the General Assembly of the Rhode Island Port Authority (RIPAEDC) and former Department of Economic Development. The purpose of RIEDC is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the state, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. Prior to 1995, the RIPAEDC created a subsidiary corporation, the R. I. Airport Corporation, to manage the state's six airports. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Development Corporation, One West Exchange Street, Providence, RI 02903.

**Rhode Island Convention Center Authority (RICCA)** - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Providence, RI 02903.

**Narragansett Bay Commission (NBC)** - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the state to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, One Service Road, Providence, RI 02905.

**Rhode Island Health and Educational Building Corporation (RIHEBC)** - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the state; (2) to assist hospitals in the state in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the state and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 400 Westminster Street, Providence, RI 02903.

**Rhode Island Resource Recovery Corporation (RIRRC)** - This Corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the state. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919.

**Rhode Island Depositors Economic Protection Corporation (DEPCO)** - This Corporation was created in 1991 to assist in protecting the interests of depositors of certain financial institutions in the state which had been closed when their private deposit insurer failed, thereby leaving those institutions without deposit insurance as required by statute. DEPCO is empowered to acquire all or a portion of the assets of the closed institutions thereby aiding the prompt repayment of the deposit liabilities of the closed institutions. DEPCO has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Depositors Economic Protection Corporation, 832 Dyer Avenue, Cranston, RI 02920.

**Rhode Island Higher Education Assistance Authority (RIHEAA)** - This Authority was created by law in 1977 for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post secondary student assistance. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

**Rhode Island Public Transit Authority (RIPTA)** - This Authority was established in 1964 to acquire any mass motor bus transportation system if that system has previously filed a petition to discontinue its service and further, if RIPTA determines it is in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the federal and state governments. For more detailed information, a copy of their financial statements can be obtained by writing to the R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907.

**Rhode Island Industrial Facilities Corporation (RIIFC)** - The purpose of this Corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the state. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the state and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Industrial Facilities Corporation, One West Exchange Street, Providence, RI 02903.

**Rhode Island Clean Water Finance Agency (RICWFA)** - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the state for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the state and federal governments and is authorized to issue revenue bonds and notes. For more detailed information,

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, RI 02908.

**Rhode Island Industrial-Recreational Building Authority (RIIRBA)** - This Authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the state. Any losses realized in excess of the fund balance would be funded by the state. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Industrial-Recreational Building Authority, One West Exchange Street, Providence, RI 02903.

**Rhode Island Water Resources Board Corporate (RIWRBC)** - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the state. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 100 North Main Street, Providence, RI 02903.

**Rhode Island Public Telecommunications Authority (RIPTCA)** - This Authority owns and operates a non-commercial educational television station in the state. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124.

**Rhode Island Children's Crusade for Higher Education (RICCHE)** - This is a Rhode Island nonprofit corporation formed for the purpose of fostering the education of economically disadvantaged youth through scholarship awards, summer jobs programs, and mentoring programs for parents and students. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Children's Crusade for Higher Education, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

### C. Fund Accounting

The general-purpose financial statements have been prepared from accounts maintained by the State Controller and from reports prescribed by the State Controller and prepared by the component units based on independent accounting systems maintained by those entities.

The state uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The state records its transactions in the fund types and account group described below.

#### **Governmental Fund Types**

**General** - is the general operating fund of the state and is used to account for all financial transactions except those required to be accounted for in another fund. Included within this fund are the operations of most jointly financed state - federal programs.

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## Notes to General-Purpose Financial Statements

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Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is mandated.

Debt Service – is used to account for the accumulation of resources for, and the payment of, long-term debt. The state's debt service fund is funded by annual appropriations that approximate the annual interest savings from debt refundings and other sources.

Capital Projects - accounts for resources obtained and used for the acquisition, construction or improvement of capital facilities not reported in other governmental or proprietary funds. Such resources are derived principally from the proceeds of general obligation bonds, revenue bonds, lease participation certificates, and operating transfers from the general fund.

### **Proprietary Fund Types**

Enterprise - is used to account for activities that are financed and operated in a manner similar to private business enterprises where (1) the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered through user charges; or (2) the periodic determination of revenues earned, expenses incurred and/or net income is appropriate. The State Lottery Fund is the only fund in this category.

Internal Service - is used to account for the financing and providing of specified goods and services, on a centralized basis, for other departments and agencies.

### **Fiduciary Fund Types**

Trust and Agency - is used to account for transactions related to assets held by the state in a trustee or agency capacity. These include pension trust funds, expendable and nonexpendable trust funds, and agency funds.

### **Account Group**

General Long-Term Debt Account Group - accounts for all general long-term debt and other long-term obligations of the primary government not accounted for in the proprietary funds. Significant long-term obligations include general obligation bonds, revenue bonds, capital leases and compensated absences.

### **D. Basis of Accounting**

All governmental fund types, expendable trust funds, agency funds and governmental component units are accounted for using the current financial resources measurement focus and are maintained on the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) as changes in net current assets.

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## Notes to General-Purpose Financial Statements

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Under the modified accrual basis of accounting, revenues, grants, entitlements and related receivables are recorded in the accounting period that they become both measurable and available, i.e., earned and collected or expected to be collected within the next 12 months. Tax revenues are recorded by the state as taxpayers earn income (personal and business income taxes), as sales are made (sales and use taxes) and as the taxable event occurs (miscellaneous taxes), net of estimated refunds. Deferred revenues offset taxes receivable not expected to be collected within the next 12 months. Grant revenue is recorded when the related expenditure has been made. Cash advances from grants are reported as deferred revenue.

Expenditures are recorded when the related fund liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include principal and interest on general long-term debt which are recognized when due and compensated absences which are recognized when paid.

On-behalf payments for fringe benefits are reported the same as direct payments to grantees. Therefore, both the state aid to local public school districts and the state's share of the employers' contribution, as required by General Laws, to the Employees' Retirement System for teachers employed by local public school districts are reported as intergovernmental expenditures (operating transfers out for the Central Falls School District) in the general fund.

Unexpended general revenue appropriations, as reappropriated by the Governor, and unexpended restricted revenues and operating transfers in are carried forward at fiscal year end and are available for expenditure in the following fiscal year. The amounts carried forward are reflected in the combined balance sheet as part of fund equity.

All proprietary fund types, pension trust funds, nonexpendable trust funds and proprietary component units are accounted for using the economic resources measurement focus and are maintained on the accrual basis of accounting. Under the accrual basis of accounting, revenues and grants are recognized when earned and expenses are recognized at the time related liabilities are incurred. All assets and liabilities associated with the operation of these funds are included on the combined balance sheet. Fund equity is segregated into contributed capital and retained earnings/fund balance.

The financial statements of R.I. Children's Crusade for Higher Education (RICCHE) are prepared in conformity with generally accepted accounting principles using FASB guidance.

### **E. Cash and Cash Equivalents**

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase.

The state does not pool its cash deposits.

### **F. Funds on Deposit with Fiscal Agent**

Funds on deposit with fiscal agent in the capital projects funds and trust and agency funds are the unexpended portion of certificates of participation and funds held by the United States Treasury Department for the payment of unemployment benefits, respectively.

### **G. Investments**

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## Notes to General-Purpose Financial Statements

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Investments are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Short-term investments are stated at amortized cost, which approximates fair value.

The pension trust funds may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. By policy, no more than 50% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (U.S. dollars).

### **H. Receivables**

Receivables are stated net of allowances for uncollectable and unavailable amounts.

### **I. Due From Other Governments and Agencies**

Due from other governments and agencies represents principally amounts owed to the state in reimbursement of federal expenditures.

### **J. Due from/to Other Funds/Component Units/Primary Government**

During the course of operations, numerous transactions occur between individual funds within the primary government and between the primary government and discretely presented component units. These intra-entity receivables and payables are classified as "due from other funds/component units/primary government" or "due to other funds/component units/primary government" in the combined balance sheet.

### **K. Inventories**

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase.

Inventories of governmental component units are stated at the lower of cost (first-in, first-out and retail inventory method) or market, and consist primarily of bookstore and dining, health and residential life services items.

Inventories of the proprietary funds and proprietary component units are stated at cost.

### **L. Fixed Assets**

The cost of fixed assets acquired by governmental fund types is accounted for as an expenditure upon purchase.

A statement of general fixed assets is not included herein since the information required to prepare such a statement has not been fully developed.

Certain fixed assets used in the operation of internal service funds are capitalized in the fund in which they are utilized and are depreciated on the straight-line basis over their estimated useful

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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## Notes to General-Purpose Financial Statements

lives. Certain internal service funds use capital leases to finance assets. Since the lease costs are recovered through service charges, such assets and related debt are accounted for within the internal service funds. These assets are depreciated over their estimated useful lives.

The cost of fixed assets used by the enterprise fund and pension trust funds is capitalized and depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

The cost of fixed assets used by the component units is capitalized and depreciation is provided on a straight-line basis over the estimated useful lives of the assets. With the exception of the R.I. Economic Development Corporation, R.I. Resource Recovery Corporation and the Narragansett Bay Commission, interest is not capitalized.

### **M. Other Assets**

Other assets include, among other things, deferred bond issuance and financing costs, present value of future scholarships pledged by institutions of higher learning, airport noise mitigation assets, restricted assets held in trust, and property held for sale and development.

### **N. Rentals Due**

Rentals due for payment of principal and current interest on revenue bonds represent amounts due as required under several lease arrangements relating to capital projects.

**O. Other Liabilities**

Other liabilities include, among other things, deferred scholarships, landfill post-closure costs, securities lending liability, and deposits pending distribution.

**P. Bonds Payable**

In governmental fund types, bond discounts/premiums and issuance costs are recognized in the current period; bond proceeds are recorded net of these amounts. Bond discounts, premiums and issuance costs for proprietary fund types are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable.

The R.I. Convention Center Authority has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

**Q. Obligations Under Capital Leases**

The construction and acquisition of certain state office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by the R.I. Refunding Bond Authority, the R.I. Convention Center Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the state (See Note 7(D)).

**R. Accrued Liabilities**

Accrued liabilities generally represent accrued salary and fringe benefits in the governmental fund types and accrued interest payable, accrued salaries and accrued vacation and sick leave in the proprietary fund types.

**S. Compensated Absences**

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. For governmental fund types, such obligations are recorded in the General Long-Term Debt Account Group and for proprietary fund types, they are recorded as fund liabilities.

**T. Fund Equity**

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from the federal and/or state governments. Depreciation expense is recognized on assets acquired or constructed with these funds. Certain component units record transfers from contributed capital to retained earnings in an amount equal to the annual depreciation charge.

Reserved fund balances represent amounts which are (1) not appropriate for expenditure or (2) legally segregated for a specific future use.

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## Notes to General-Purpose Financial Statements

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Designated fund balances represent amounts segregated to indicate management's tentative plans or intent for future use of financial resources.

### U. Memorandum Only - Total Columns

Total columns on the general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns are not comparable to a consolidation. Intra-entity eliminations have not been made in the aggregation of this data.

### V. New Accounting Pronouncements

1. In fiscal year 2001, the state implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." The implementation of GASB Statement No. 33 resulted in the recognition of an additional \$7,050,800 of tax revenues, net of estimated refunds, in the General Fund. The net effect of implementing GASB Statement No. 33 on the Rhode Island Temporary Disability Insurance Fund within the Special Revenue Funds and on the Employment Security Trust Fund within the Trust and Agency Funds was a cumulative increase in fund balances of \$37,636,000 and \$33,873,900, respectively (See Note 17 - Restatement of Fund Equity).

2. In June 1999, the GASB issued Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments. The state is required to apply this statement for periods beginning after June 15, 2001. GASB Statement No. 34 establishes new financial reporting requirements that fundamentally affect the presentation of general purpose government's basic financial statements and related required supplementary information. In November 1999, the GASB established accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34 when the Board issued GASB Statement No. 35, Basic Financial Statements--and Management's Discussion and Analysis--for Public Colleges and Universities. Management has not yet determined the impact that GASB Statements No. 34 and 35 will have on the state's financial statements.

### Note 2. Budgeting and Budgetary Control

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the governor, contains a complete plan of estimated general, federal, restricted revenues and operating transfers in and proposed expenditures.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is as follows:

- (1) For general revenue appropriations, it is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.
- (2) For federal grants, it is the total of all grants available to a department under the same Catalog of Federal Domestic Assistance (CFDA) number. Federal grant

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appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

- (3) For restricted programs and operating transfers in, it is the account level. By its very nature, a restricted account is created by statute for a special purpose and management cannot reassign the resources without special approval. Operating transfers in are accounted for separately because they are reported under "Other Financing Sources" in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Governmental Component Units.

Internal administrative and accounting budgetary controls utilized by the state consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative branch and the Justice Link program.

For the fiscal year ended June 30, 2001 expenditures exceeded appropriations in the following departments and agencies (expressed in thousands):

### General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Administration			
General revenue appropriations:			
Central Management			\$ 142
Accounts and Control			25
Auditing			21
Human Resources			23
Taxation			1,314
Central Services			643

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

### General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
<i>Administration (continued)</i>			
Office of Library and Information Services			30
Race and Police Community Relations Commission			6
Motor Vehicle Excise Tax Program			4,921
Federal grants:			
Rural Housing Preservation Grants	10.433		29
Economic Development - Support for Planning Organizations	11.302		33
Community Development Block Grants/State's Program	14.228		721
Emergency Shelter Grants Program	14.231		41
Byrne Formula Grant Program	16.579		1
Workforce Investment Act	17.255		65
National Motor Carrier Safety	20.218		115
Low-Income Home Energy Assistance	93.568		5,560
Restricted programs:			
DEPCO Escrow Account		2450-80200	1,261
Exxon Oil Overcharge Interest Earnings		2460-81410	151
COP - Center General-Furniture		2485-80200	1
COP - DLT Building - WC		2485-80500	1
COP - DLT Building - Job Development Fund		2485-80700	44
COP - Center General Furniture - JDF		2485-80800	14
COP - Pastore Center Telecomm - JDF		2485-80900	2
Operating transfers in:			
Debt Service Special Account		2480-90200	10,282
RICAP State House - Terrace Walls/South Stairs		2480-90800	571
COP - DLT Building - Other		2485-90200	23
Debt - URI Education and General		2486-91100	31
Debt - URI Dining Services		2486-91420	1
Debt - RIC Student Union		2486-95404	49
Business Regulation			
General revenue appropriations:			
Insurance Regulation			91
Labor and Training			
General revenue appropriations:			
Central Management			32
Workforce Regulation and Safety			383
Labor Relations Board			14
Federal grants:			
Labor Force Statistics	17.002		109
Trade Adjustment Assistance - Dislocated Workers	17.245		209
Restricted programs:			
Office of Director - Workers Compensation		1652-80100	257
Education Unit - Workers Compensation		1652-80400	100
Second Injury Indemnity Fund Operation		1652-80500	42
Tardy Fund		1690-80100	472
Interest Fund		1695-80100	99
Legislature			
Restricted programs:			
Audit of Federal Assistance Programs		2626-80100	257
Secretary of State			
Federal grants:			
National Historical Publications and Records Grants	89.003		2
Treasury			
Restricted Programs:			
Forfeited Property Fund		2310-80100	6

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

### General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Board for Design Professionals			
General revenue appropriation			29
Children, Youth and Families			
General revenue appropriations:			
Friendship Street Renovations			303
Juvenile Corrections			46
Child Welfare			1,196
Federal grants:			
Byrne Formula Grant Program	16.579		2
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		250
Promoting Safe and Stable Families	93.556		199
Temporary Assistance for Needy Families	93.558		1,513
Child Care and Development Block Grant	93.575		46
Independent Living	93.674		93
Other Expenditures of Federal Awards			140
Restricted programs:			
Social Security Income		3340-80200	281
Operating transfers in:			
RICAP - Spurwink/RI		3350-90100	16
Elderly Affairs			
Federal grants:			
Senior Community Service Employment Program	17.235		78
Special Programs for the Aging - Title III, Part F - Disease Prevention and Health Promotion Services	93.043		15
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		149
New Demonstration Grants to States with Respect to Alzheimer's Disease	93.051		10
Nation Family Caregiver Support Program	93.052		11
Medical Assistance Program	93.778		54
Senior Companion Program	94.016		69
Operating transfers in:			
Gas Tax		3260-91500	71
Health			
General revenue appropriations:			
Central Management			136
Family Health			140
Poison Control Center			15
Health Services Regulation			152
Health Laboratories			302
Federal grants:			
Compensation and Working Conditions	17.005		1
Air Pollution Control Program Support	66.001		7
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	66.707		34
Special Education - Grants for Infants and Families With Disabilities	84.181		90
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006		8
Grants for State Loan Repayment	93.165		19
Family Planning - Services	93.217		148
Innovative Food Safety Projects	93.245		7
Immunization Grants	93.268		257
Child Support Enforcement	93.563		6
Child Care and Development Block Grant	93.575		38
State Survey and Certification of Health Care Providers and Suppliers	93.777		321
Medical Assistance Program	93.778		320

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

### General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
<i>Health (continued)</i>			
Preventive Health Services - Sexually Transmitted Diseases			
Control Grants	93.977		28
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		39
Restricted programs:			
Indirect Cost Recovery - Central Management		1102-80601	353
RWJ - Making The Grade - Planning		1131-80200	3
All Kids Count		1134-80200	6
Drinking Water Revolving Fund		1173-80200	171
<i>Human Services</i>			
General revenue appropriations:			
Veterans Affairs			354
Medical Benefits - Managed Care			1,663
Medical Benefits - Special Education			2,638
Family Independence Program			319
Weatherization One-Time Payment			5
Federal grants:			
Food Stamps	10.551		882
Family Violence Prevention and Services - Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671		158
State's Children Insurance Program	93.767		9,586
Restricted programs:			
Indirect Cost Recovery - Central Management		1210-80101	12
Vending Stand Proceeds		1237-80100	40
Health Indicators Development Project		1246-80100	37
Medicaid Provider Participation		1260-80200	35
<i>Mental Health, Retardation and Hospitals</i>			
General revenue appropriations:			
Central Management			96
Hospitals and Community System Support			256
Integrated Mental Health Services			148
Hospital and Community Rehabilitative Services			4,308
Federal grants:			
Projects for Assistance in Transition from Homelessness (PATH)	93.150		298
<i>Office of the Child Advocate</i>			
General revenue appropriation			40
Federal grants:			
Crime Victim Assistance	16.575		4
Medical Assistance Program	93.778		9
<i>Governor's Commission on Disabilities</i>			
General revenue appropriation			4
Restricted programs:			
Human Resource Investment Council		2041-80200	6
<i>Elementary and Secondary Education</i>			
General revenue appropriations:			
Program Operations			194
Federal grants:			
Summer Food Service Program for Children	10.559		6
Title I Program for Neglected and Delinquent Children	84.013		1
Special Education - Grants for Infants and Families with Disabilities	84.181		3
Even Start - State Educational Agencies	84.213		86
Class Size Reduction	84.340		428
Medical Assistance Program	93.778		303
Restricted programs:			
Indirect Cost Recovery - Program Support		1410-80121	16

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### General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Rhode Island State Council on the Arts			
General revenue appropriations:			
Operating Support			18
Rhode Island Higher Education Assistance Authority			
General revenue appropriations:			
Needs Based Grants and Work Opportunity			73
Historical Preservation and Heritage Commission			
Federal grants:			
Historic Preservation Fund Grants-In-Aid	15.904		4
National Maritime Heritage Grants	15.925		11
Restricted Programs:			
Survey and Planning - Restricted Fund		2062-80100	2
Historic Preservation Easement Fund		2062-80300	54
Attorney General			
General revenue appropriations:			
Criminal			15
Federal grants:			
Byrne Formula Grant Program	16.579		3
Restricted Programs:			
Consumer Protection/Education		2211-80800	37
Gambling Forfeitures		2230-80500	4
Corrections			
General revenue appropriations:			
Institutional Corrections			2,087
Federal grants:			
Special Education - Grants to States	84.027		22
Vocational Education - Basic Grants to States	84.048		24
Operating transfers in:			
RICAP - Perimeter & Security Upgrades		1370-90300	777
Rhode Island Justice Commission			
Federal grants:			
Juvenile Accountability Incentive Block Grants	16.523		193
Byrne Formula Grant Program	16.579		38
Violence Against Women Formula Grants	16.588		27
Judiciary			
General revenue appropriations:			
Supreme Court			673
Traffic Tribunal			9
Federal grants:			
Victims of Child Abuse	16.547		4
National Criminal History Improvement Program	16.554		6
Restricted programs:			
Advisory Committee on Women and Minorities		2710-80100	1
RI Supreme Court Disciplinary Counsel		2710-80400	1
General Operations		2750-80100	1
Retirement Benefits of Commissioners and Judges		2750-80200	25
Military Staff			
General revenue appropriations:			
National Guard			488
Emergency Management			46
Federal grants:			
Community Assistance Program - State Support			
Services Element (CAP-SSSE)	83.105		27

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

### General Fund

<u>Department - Division Grant or Program</u>	<u>CFDA Number</u>	<u>Account Number</u>	<u>Amount</u>
Military Staff ( <i>continued</i> )			
Operating transfers in:			
RICPF - Bristol Armory Rehabilitation		2089-90300	14
E-911 Emergency Telephone System			
General revenue appropriation			42
Restricted programs		2085-80100	353
Fire Safety Code Board of Appeal and Review			
General revenue appropriation			3
Fire Safety and Training Academy			
Federal grants:			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		24
Commission on Judicial Tenure and Discipline			
General revenue appropriation			9
State Police			
General revenue appropriation			2,099
Restricted programs:			
Forfeited Property Retained - State Police		2070-80100	21
Comprehensive Crime Control Act - Federal Regulation		2070-80900	6
Forfeiture of Motor Vehicles		2070-81000	7
Operating transfers in:			
Traffic Enforcement		2070-90500	176
Environmental Management			
General revenue appropriations:			
Natural Resources			519
Environmental Protection			6
Federal Grants:			
Boating Safety Financial Assistance	20.005		4
State Underground Water Source Protection	66.433		74
Wetlands Grants	66.461		35
Water Quality Cooperative Agreements	66.463		91
Innovative Community Partnership	66.651		18
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		24
Restricted programs:			
Indirect Cost Recovery - Public Resources Management		1730-80103	191
Fishing License Receipts		1732-80100	72
Hunting License Receipts		1732-80200	46
Shellfish and Marine License Receipts		1732-80400	73
Boating Safety		1735-80100	40
State Revolving Fund Administration		1751-80900	19
Indirect Cost Recovery - Water Resources		1751-81300	15
Environmental Response Fund		1754-80200	244
Water and Air Protection Program		1754-80600	490
Underground Storage Tank Fees		1759-80100	39
Operating transfers in:			
RICAP - Newport Pier Upgrades		1736-91300	393
State Water Resources Board			
Operating transfers in:			
RICAP - Big River Management Area		2835-90100	3
RICAP - Water Allocation Plan		2835-90300	1

### Special Revenue Funds

Intermodal Surface Transportation			
Federal Grants:			
Local Rail Freight Assistance	20.308		13
Restricted programs:			
Vehicle Salvage		5312-80300	5

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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### Note 3. Cash, Cash Equivalents and Investments

#### Cash Deposits

##### Primary Government

At June 30, 2001, the carrying amount of the state's cash deposits was \$54,213,846 and the bank balance was \$99,502,057. Of the bank balance, \$633,804 was covered by federal depository insurance. The remaining amount, \$98,868,253 was uninsured and uncollateralized. The carrying amount and bank balance include \$32,343,000 of certificates of deposit.

##### Component Units

At June 30, 2001, the carrying amount of the component units' cash deposits was \$211,562,598 and the bank balance was \$242,726,294. Of the bank balance, \$3,904,556 was covered by federal depository insurance and \$50,406,096 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$188,415,642 was uninsured and uncollateralized. The carrying amount and the bank balance include \$4,827,205 of certificates of deposit.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the state, its agencies or governmental subdivisions of the state, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government was required to be collateralized at June 30, 2001.

#### Investments

The State Investment Commission (Commission) is responsible for the investment of all state funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies.

Investments of certain component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The state's investments (expressed in thousands) are categorized in the following table to give an indication of the level of risk assumed by the entity at June 30, 2001.

Category 1: Insured or registered, or securities held by the state or its agent in the state's name.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the state's name.

### Primary Government

	Category			Fair Value
	1	2	3	
U.S. Government and Agency Securities	\$ 833,162	\$	\$	\$ 833,162
Commercial Paper	53,129			53,129
Repurchase Agreements	15,602			15,602
Corporate Bonds	792,673	200		792,873
Equity Securities	926,492	1,496		927,988
Foreign Securities	1,036,832			1,036,832
Unit Investment Trust	1,755,007			1,755,007
	<u>\$ 5,412,897</u>	<u>\$ 1,696</u>	<u>\$</u>	<u>5,414,593</u>
Money Market Mutual Funds				423,714
Real Estate and Venture Capital Limited Partnership				318,857
Investments held by broker-dealers under securities loans with cash collateral				424,459
Securities lending short-term collateral investment pool				438,544
Investments of Statutory Deposits Held In Trust				68,218
Other				3,167
Total				7,091,552
Less amount classified as cash equivalents				450,747
Total Investments				<u>\$ 6,640,805</u>

### Component Units

	Category			Fair Value
	1	2	3	
U.S. Government and Agency Securities	\$ 139,243	\$ 202,466	\$ 7,873	\$ 349,582
Money Market		3,692	20,150	23,842
Commercial Paper	57,193		27,924	85,117
Repurchase Agreements	43,105	1,276	74,480	118,861
Corporate Notes	340			340
Equity Securities		1,640		1,640
	<u>\$ 239,881</u>	<u>\$ 209,074</u>	<u>\$ 130,427</u>	<u>579,382</u>
Money Market Mutual Funds				38,686
Investment Agreements				522,051
Investments of R.I. Higher Education Assistance Authority CollegeBoundfund Trust Fund				469,017
Investments of the R.I. Children's Crusade for Higher Education				10,352
Other				25
Total				1,619,513
Less amount classified as cash equivalents				303,581
Total Investments				<u>\$ 1,315,932</u>

## Derivatives and Other Similar Investments

### Primary Government

The Employees' Retirement System (System) allows its investment managers to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts and mortgage-backed securities. Through the Unit Investment Trusts (UIT), the System also indirectly holds derivative type instruments. Information on the extent of the use, and holdings of derivative securities by the UITs is not readily available.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. These contracts involve risk in excess of the amount reflected in the System's Statements of Plan Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the System has in that particular currency contract. By policy, no more than 50% of actively managed Foreign Equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

The System may use futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. Buying futures tend to increase the System's exposure to the underlying instrument. Selling futures tend to decrease the System's exposure to the underlying instrument, or hedge other System investments. Losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in aggregate as U.S. Government and Agency Securities in the disclosure of custodial credit risk. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations. The System may invest in interest-only (IO) and principal-only strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

The Unit Investment Trusts (UIT) may sell a security they do not own in anticipation of a decline in the fair value of that security. Short sales may increase the risk of loss to the UIT when the price of a security underlying the short sale increases and the UIT is subject to a higher cost to purchase the security in order to cover the position.

### **Securities Lending**

#### Primary Government

Policies of the State Investment Commission permit use of investments to enter into securities lending transactions. The Employees' Retirement System (System) has contracted with State Street Bank & Trust Company as third party securities lending agent to lend the System's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan. There are no restrictions on the amount of loans that can be made. There have been no violations of the provisions of the contract. Securities on loan at year-end for cash collateral are presented as not categorized. Securities on loan for noncash

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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collateral are classified according to the category for the collateral. The contract with the lending agent requires them to indemnify the System if the borrowers fail to return the securities.

Either the System or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool for an average duration of 73 days and a weighted average maturity of 172 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The System is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrower or lending agent. At June 30, 2001, management believes the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers does not exceed the amounts the borrowers owe the System. The securities on loan at year-end were \$476,390,965 (fair value), and the collateral received for those securities on loan was \$491,764,265 (fair value).

### **Cash and Cash Equivalents**

#### Primary Government

Cash and cash equivalents of \$504,960,000 consists of the \$54,213,000 cash carrying amount and \$450,747,000 of investments determined to be cash equivalents.

#### Component Units

Cash and cash equivalents of \$515,144,000 consists of the \$211,563,000 cash carrying amount and \$303,581,000 of investments determined to be cash equivalents.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

### Note 4. Receivables

Receivables at June 30, 2001 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Contributions	Allowance for Uncollectable and Unavailable Amounts	Total
Primary Government:							
General fund	\$ 236,733	\$ 10,089	\$	\$	\$	\$ (51,976)	\$ 194,846
Special revenue funds	52,109	1,850				(2,780)	51,179
Enterprise fund		6,319				(314)	6,005
Internal service fund		4,851		1,113			5,964
Trust and agency funds	38,077	8,225			24,090	(9,843)	60,549
Total Primary Government	326,919	31,334		1,113	24,090	(64,913)	318,543
Component Units:							
Governmental		28,309	4	16,959		(6,458)	38,814
Proprietary		69,931	32,122	2,104,003		(37,121)	2,168,935
Total Receivables	<u>\$ 326,919</u>	<u>\$ 129,574</u>	<u>\$ 32,126</u>	<u>\$ 2,122,075</u>	<u>\$ 24,090</u>	<u>\$ (108,492)</u>	<u>\$ 2,526,292</u>

### Component Units

Loans receivable of the R.I. Housing and Mortgage Finance Corporation are secured by a first lien on real and personal property and, in some instances, are federally insured. Loans receivable of the R.I. Student Loan Authority are insured by the R.I. Higher Education Assistance Authority, which in turn has a reinsurance agreement with the federal government. The R.I. Clean Water Finance Agency provides loans to municipalities, sewer commissions, or wastewater management districts in the state for constructing or upgrading water pollution abatement projects.

### Other

The amount reported in the special revenue funds as due from other governments and agencies, \$38,701,000, is net of \$5,035,000, which is considered unavailable to meet current year expenditures.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

### Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables (operations - due from/due to and working capital loans - loan to/loan from), as of June 30, 2001, are summarized below (expressed in thousands):

Fund Type/Fund	Due from Other Funds	Due to Other Funds	Due from Component Units	Due to Component Units
General	\$ 73,275	\$ 12,913	\$ 5,112	\$ 1,838
Special Revenue:				
R.I. Temporary Disability Insurance	695	2,113		
Intermodal Surface Transportation	19,837	45,964	1,647	2,162
Providence River Relocation		1		
Subtotal	<u>20,532</u>	<u>48,078</u>	<u>1,647</u>	<u>2,162</u>
Debt Service	<u>29</u>	<u>23,213</u>		
Capital Projects:				
Bond Capital	19,435	40,207		1,200
Subtotal	<u>19,435</u>	<u>40,207</u>		<u>1,200</u>
Enterprise:				
State Lottery		1,461		
Subtotal		<u>1,461</u>		
Internal Service:				
Central Utilities	1,410			
Central Services	1,638	222		
Assessed Fringe Benefit	619	730		
Special Facilities	659	30		
Automotive Maintenance	483	27		
Central Warehouse	241	2		
Correctional Industries	1,143	384		
Energy Conservation	200			
Records Center Fund		18		
Subtotal	<u>6,393</u>	<u>1,413</u>		
Trust and Agency:				
Pension Trust	7,569			
Expendable Trust - ES	138	86		
Subtotal	<u>7,707</u>	<u>86</u>		
Total	<u>\$ 127,371</u>	<u>\$ 127,371</u>	<u>\$ 6,759</u>	<u>\$ 5,200</u>
Component Units:				
Governmental:				
University of Rhode Island	\$	\$	\$ 901	\$ 858
Rhode Island College			403	867
Community College of Rhode Island			497	422
Subtotal			<u>1,801</u>	<u>2,147</u>
Proprietary:				
R.I. Economic Development Corporation				666
R.I. Depositors Economic Protection Corporation			1,000	
R.I. Higher Education Assistance Authority			33	9
R.I. Public Telecommunications Authority			11	
Narragansett Bay Commission			32	
R.I. Convention Center Authority			2,235	
R.I. Public Transit Authority			1,647	2,378
Subtotal			<u>4,958</u>	<u>3,053</u>
Total	<u>\$</u>	<u>\$</u>	<u>\$ 6,759</u>	<u>\$ 5,200</u>

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

Fund Type/Fund	Loans to Other Funds	Loans from Other Funds
General	\$ 5,845	\$
Capital Projects:		
Bond Capital		1,459
RI Clean Water Act Environmental Trust Fund		1,500
Certificates of Participation		36
Subtotal		<u>2,995</u>
Internal Service:		
Assessed Fringe Benefits		1,000
Central Services		200
Central Warehouse		200
Central Utilities		200
Correctional Industries		850
Special Facilities		400
Subtotal		<u>2,850</u>
Total	<u>\$ 5,845</u>	<u>\$ 5,845</u>

### Note 6. Fixed Assets

The fixed assets by fund type consist of the following (expressed in thousands):

	Land and Improvements	Structures and Improvements 15-100	Machinery and Equipment 5-10	Construction in Progress	Accumulated Depreciation	Net Fixed Assets
Estimated useful lives						
<b>Primary Government:</b>						
Enterprise fund	\$	\$ 1,575	\$ 850	\$	\$ (1,912)	\$ 513
Internal service funds		4,212	3,845		(3,713)	4,344
Trust and Agency Funds			9,255		(134)	9,121
Total Primary Government		<u>5,787</u>	<u>13,950</u>		<u>(5,759)</u>	<u>13,978</u>
<b>Component Units:</b>						
Governmental	526	1,811	363	17,293	(756)	19,237
Proprietary	145,856	916,521	143,858	104,722	(341,532)	969,425
Total	<u>\$ 146,382</u>	<u>\$ 924,119</u>	<u>\$ 158,171</u>	<u>\$ 122,015</u>	<u>\$ (348,047)</u>	<u>\$ 1,002,640</u>

The R.I. Economic Development Corporation capitalized interest income of approximately \$207,000 net of interest expense of \$2,752,000 (asset value was reduced). The Narragansett Bay Commission capitalized approximately \$99,900 of interest expense as a component of the cost of construction. The Rhode Island Resource Recovery Corporation capitalized approximately \$15,000 of interest expense. For the Proprietary Component Units, actual nonoperating interest expense was \$41,212,900 and actual nonoperating interest revenue was \$17,867,000 which represents increases of \$2,866,900 and \$2,959,000 respectively, over the amounts reported in Combined Statement of Revenues, Expenses, and Changes in Fund Equity - All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Proprietary Component Units.

### Note 7. Long-Term Obligations

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

Long-term obligations include bonds, notes and loans payable, obligations under capital leases, compensated absences, and other long-term liabilities.

### A. Bonds Payable

At June 30, 2001, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government		Governmental Component Units		Proprietary Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 76,832	\$ 53,248	\$ 1,572	\$ 5,676	\$ 154,662	\$ 154,285
2003	79,412	49,423	1,631	5,628	153,961	146,916
2004	78,965	45,410	1,758	5,628	141,350	138,660
2005	79,681	40,801	1,815	5,572	80,669	132,709
2006	74,626	44,362	2,544	5,491	96,636	126,115
Later Years	611,719	188,049	95,621	71,507	2,449,284	1,652,344
	<u>\$ 1,001,235</u>	<u>\$ 421,293</u>	<u>\$ 104,941</u>	<u>\$ 99,502</u>	<u>\$ 3,076,562</u>	<u>\$ 2,351,029</u>

### Primary Government

Current interest bonds of the state are serial bonds with interest payable semi-annually and multi-modal variable rate demand bonds. Capital appreciation bonds are designated as College and University Savings Bonds. The College and University Savings Bonds mature in varying amounts to 2010 with all interest payable at maturity. Interest requirements for the multi-modal variable rate bonds are not reflected in the amortization table shown above since the amounts are indeterminable.

Included in the current interest bonds is \$31,565,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the state) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the state (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The state has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through July 2002. The state is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the state pursuant to lease agreements relating to projects financed by the authority and leased to the state. Proceeds from the RIRBA bonds have been used (1) to loan funds to the state to effect the advance refunding of general obligation bonds issued by the state in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various state agencies.

**Governmental Component Units**

Revenue bonds of the Governmental Component Units were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds of the Governmental Component Units also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) (a proprietary component unit) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

**Proprietary Component Units**

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

Revenue bonds of the R.I. Convention Center Authority (RICCA) were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve and (f) pay costs of issuance. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the state covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited.

The proceeds of the revenue bonds of the R.I. Clean Water Finance Agency provide funds to make low interest loans to municipalities in the state and quasi-state agencies to finance or refinance the costs of construction or rehabilitation of water pollution abatement projects.

Bonds of the Narragansett Bay Commission (NBC) represent the NBC's portion of the state's general obligation bonds. Debt service on NBC's portion is recovered through charges levied for services provided to users of its facilities. These bonds are guaranteed by the state.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

Bonds of the R.I. Water Resources Board Corporate were issued to provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

A summary of general obligation bonds authorized by the voters and unissued (expressed in thousands) at June 30, 2001 is shown below.

	Authorized and Unissued July 1	Authorized	Issued	Extinguished	Authorized and Unissued June 30
General Obligation Bonds Supported by Taxes:					
Capital Development Plan - 1986	\$ 160	\$	\$	\$	\$ 160
Capital Development Plan - 1988	970				970
Capital Development Plan - 1989	3,506				3,506
Capital Development Plan - 1990	18,390				18,390
Capital Development Plan - 1994	8,115				8,115
Capital Development Plan - 1996	28,618		1,565		27,053
Capital Development Plan - 1998	57,655		29,800		27,855
Capital Development Plan - 2000		193,460			193,460
R.I. Economic Development Fund	450				450
Underground Storage Tank Replacement Revolving Loan Fund	2			2	
Narragansett Bay Water Quality Management District Commission Fund	12,935				12,935
Clean Water Act Environmental Trust Fund	3,840				3,840
Open Space and Recreational Area Fund	4,438				4,438
Drinking Water Protection Fund	3,415				3,415
Clean Water Finance Agency - Water Pollution Revolving Loan Fund	13,960				13,960
General Obligation Bonds Supported by Taxes	<u>156,454</u>	<u>193,460</u>	<u>31,365</u>	<u>2</u>	<u>318,547</u>
R. I. Industrial-Recreational Building Authority	80,000				80,000
Total	<u>\$ 236,454</u>	<u>\$ 193,460</u>	<u>\$ 31,365</u>	<u>\$ 2</u>	<u>\$ 398,547</u>

In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

The amount of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$26,274,527 at June 30, 2001 (See Note 21). The insured mortgages are guaranteed by the state.

See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

### B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2001 are as follows:

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

### Component Units - Governmental

Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	<u>\$ 2,272</u>
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### Component Units - Proprietary

R.I. Housing and Mortgage Finance Corporation bank notes, 4.375% to 6.71% interest, payable through 2008.	\$ 14,086
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 6.75% interest, payable through 2005	431
R.I. Higher Education Assistance Authority notes payable to the Student Loan Marketing Association, interest is 1.5% above the Treasury Bill rate, through 2001.	435
R.I. Convention Center Authority notes payable under management agreements .	2,053
	<u>\$ 17,005</u>

## C. Loans Payable

Loans payable of the Proprietary Component Units represent liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) (\$52,813,472) and to the R.I. Refunding Bond Authority (\$30,000). The loans payable to the RICWFA are for projects financed by that agency.

## D. Obligations Under Capital Leases

### Primary Government

The state's obligation to the R.I. Convention Center Authority (RICCA) consists of RICCA's outstanding debt at June 30, 2001 based on a lease and agreement between RICCA and the state in effect at that date. The state makes lease payments to pay the operating expenses of RICCA and the debt service on its obligations to the extent they are not supported by RICCA revenues.

The state has entered into capital lease agreements with financial institutions which have issued certificates of participation (COP). These financing arrangements have been used by the state to acquire, construct or renovate facilities and acquire other fixed assets.

The state's obligation under capital leases at June 30, 2001 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. The portion of the state's obligation under capital leases that is payable from general fund appropriations and capital leases not recorded in proprietary fund types is reflected in the general long-term debt account group at June 30, 2001.

Obligation of the state to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2001. Interest for variable rate COP is not reported since the amount is indeterminable.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

Fiscal Year Ending June 30	RICCA	COP	Total
2002	\$ 23,952	\$ 14,933	\$ 38,885
2003	23,952	14,534	38,486
2004	23,952	14,447	38,399
2005	23,956	13,314	37,270
2006	23,956	11,308	35,264
Later Years	434,244	108,714	542,958
Total future minimum lease payments	554,012	177,250	731,262
Amount representing interest	(238,207)	(50,780)	(288,987)
Present value of future minimum lease payments	<u>\$ 315,805</u>	<u>\$ 126,470</u>	<u>\$ 442,275</u>

### Component Units

The University of Rhode Island (URI), Rhode Island College (RIC), Community College of Rhode Island (CCRI), and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases consist, primarily, of construction of facilities and equipment acquisitions financed by the R.I. Refunding Bond Authority, a blended component unit.

Capital lease obligations of the R.I. Airport Corporation (RIAC), a subsidiary and component unit of the R.I. Economic Development Corporation (RIEDC), are for annual payments to the state equal to the principal and interest for airport related general obligation bonds issued by the state.

The following is a summary of the material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2001.

Fiscal Year Ending June 30	Governmental			Proprietary	
	URI	RIC	CCRI	RIEDC	RIPTCA
2002	\$ 1,676	\$ 444	\$ 157	\$ 4,096	\$ 821
2003	1,605	439	156	4,100	827
2004	1,448	443	156	3,914	820
2005	1,428	449	156	3,671	807
2006	1,295	445	156	3,334	806
Later Years	17,744	1,457	2,814	19,426	4,102
Total future minimum lease payments	25,196	3,677	3,595	38,541	8,183
Amount representing interest	(8,428)	(790)	(1,645)	(10,342)	(1,905)
Present value of future minimum lease payments	<u>\$ 16,768</u>	<u>\$ 2,887</u>	<u>\$ 1,950</u>	<u>\$ 28,199</u>	<u>\$ 6,278</u>

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

### E. Compensated Absences

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. Payment is calculated at their then-current rate of pay.

### F. Other Long-Term Liabilities

Income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations, has been included in the general long-term debt account group. These amounts are generally payable to the federal government five years after the bond issuance date.

The long-term debt portion of violent crimes' claims is included in the general long-term debt account group. Also included is an advance from the Federal Highway Authority Right of Way Revolving Fund that will be used to acquire land and rights-of-way for the Quonset access road project. Repayment has been budgeted for fiscal year 2002 with federal funds allowable under federal regulations (23 CFR Subpart G 712.701 to 712.703). The amount included for negotiated settlements represents the amount due to correctional officers and is payable over three years. Retainage payable is also included in other long-term debt since the related construction projects are not expected to be completed in the subsequent fiscal period. Finally, an amount due to the federal government is being reported as long-term debt because the payment schedule coincides with the repayment of a long-term loan issued to a private employer.

### G. Changes in General Long-Term Debt

During the fiscal year ended June 30, 2001, the following changes (expressed in thousands) occurred in general long-term debt:

#### Primary Government

	Balance July 1	Additions	Reductions	Balance June 30
General obligation bonds payable:				
Current interest bonds	\$ 849,769	\$ 149,935	\$ (170,670)	\$ 829,034
Capital appreciation bonds	31,289		(6,473)	24,816
Accreted interest on capital appreciation bonds	36,346	5,118	(7,300)	34,164
Revenue bonds - RIRBA	161,210		(13,825)	147,385
Bonds payable	<u>1,078,614</u>	<u>155,053</u>	<u>(198,268)</u>	<u>1,035,399</u>
Lease obligations to the RICCA	322,930		(7,125)	315,805
Certificates of Participation (COP)	102,013	31,330	(6,873)	126,470
Obligations under capital leases	<u>424,943</u>	<u>31,330</u>	<u>(13,998)</u>	<u>442,275</u>
Compensated absences	65,007	6,236	(5,669)	65,574
Other long-term liabilities	19,701	34,143	(5,388)	48,456
	<u>\$ 1,588,265</u>	<u>\$ 226,762</u>	<u>\$ (223,323)</u>	<u>\$ 1,591,704</u>

#### Governmental Component Units

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

	Balance July 1	Additions	Reductions	Balance June 30
Compensated absences	\$ 32,011	\$ 4,031	\$ (3,444)	\$ 32,598
Obligations under capital leases	23,208	57	(1,641)	21,624
Notes payable	2,320		(48)	2,272
Loans payable	652	251	(42)	861
Bonds payable	63,073	43,550	(1,682)	104,941
Other liabilities	628		(628)	
	<u>\$ 121,892</u>	<u>\$ 47,889</u>	<u>\$ (7,485)</u>	<u>\$ 162,296</u>

### H. Defeased Debt

In prior years, the state and its component units defeased certain general obligation bonds, revenue bonds and certificates of participation (COP) by placing the proceeds of the new bonds or COP, or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds or COP. Accordingly, the trust account assets and the liabilities for the defeased bonds or COP are not included in the general-purpose financial statements. On June 30, 2001, the following bonds outstanding (expressed in thousands) are considered defeased:

	<u>Amount</u>
Primary government:	
General Obligation Bonds	
(includes \$4,746,000 of NBC)	\$ 159,540
Component Units:	
R.I. Clean Water Finance Agency	14,935
R.I. Depositors Economic Protection Corporation	647,410
R.I. Economic Development Corporation	31,200
R.I. Turnpike And Bridge Authority	40,600

In February 2001, the state issued \$55,990,000 Consolidated Capital Development Loan of 2001, Refunding Series A, with interest rates ranging from 3.35% to 5.50%, maturing from 2003 through 2016. The proceeds were used to advance refund \$15,865,000 of 1992 Series A Consolidated Capital Development Loans, \$14,725,000 of 1995 Series A Consolidated Capital Development Loans, and \$25,210,000 of 1996 Series A Consolidated Capital Development Loans. The net proceeds from the sale of the refunding bonds were used to purchase U. S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the state's General Long-Term Debt Account Group. The refunding decreased total debt service payments over the next 15 years by \$2,410,743 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,773,900.

The above amounts include \$425,000 of refunding bonds issued on behalf of Narragansett Bay Commission (NBC), a component unit, to advance refund \$445,000 of outstanding bonds. This advance refunding decreased NBC's total debt service payments over the next 15 years by \$18,076 and resulted in an economic gain of \$12,625.

As part of the February 2001 refunding issue, the state issued \$63,005,000 Consolidated Capital Development Loan of 2001, Refunding Series B, with interest rates ranging from 4.06% to 5.375%, maturing from 2008 through 2019. The proceeds were used to convert \$32,400,000 Variable Rate Multi-Modal General Obligation Bonds of 1998, and \$31,290,000 Variable Rate Multi-Modal General Obligation Bonds of 1999 to fixed interest serial debt. The net proceeds from

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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the sale of the refunding bonds were used to purchase U. S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded variable rate bonds were removed from the state's General Long-Term Debt Account Group. The debt service savings and economic gain or loss were indeterminable.

During the year ended June 30, 2001, the Rhode Island Depositors Economic Protection Corporation (DEPCO) purchased U.S. Government securities, which were deposited into an irrevocable trust with an escrow agent to provide for all future debt service on \$32,540,000 1992 Series A special obligation bonds. These bonds are legally defeased and the liability has been removed from the statement of assets, liabilities, and fund balance (deficit). The defeasance was funded through the liquidation of assets, net settlements, and excess state sales tax; it resulted in the recognition of an accounting loss of \$71,051. DEPCO reduced its aggregated principal and interest payments by approximately \$38,884,000 over the next 5 years.

### **I. Conduit Debt**

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2001 was \$144,000,000, \$1,082,868,867 and \$410,000,000, respectively.

### **Note 8. Reservations and Designations of Fund Equity**

#### **Reserved Retained Earnings**

The General Laws require that the net income of the Correctional Industries Internal Service Fund be reserved for capital expansion. At June 30, 2001, the balance of the reserve was \$1,456,275.

The reservations of retained earnings of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are restricted by specific bond resolutions, designations by the Board of Commissioners (Board), or by a trust agreement initiated by RIHMFC. These reserves are made up of three major elements: (1) RIHMFC's Housing Endowment Fund (Fund), (2) commitments for housing initiatives, and (3) Affordability Housing Trust (Trust). The Fund was established by the Board to provide a reserve against its outstanding indebtedness, future uncertainties related to the marketplace and as a reserve against non-market related uncertainties. In addition to meeting the foregoing objectives, the Fund was established to provide a means whereby RIHMFC can meet the short-term and long-term affordable housing needs targeted to low and moderate income Rhode Island residents. At a minimum, the amount of the Fund will be maintained at the greater of \$50,000,000 or 4% of the outstanding long-term indebtedness of RIHMFC. The Fund amounted to \$54,523,511 at June 30, 2001. Commitments for housing initiatives represent

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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amounts set aside by the Board. In order to properly finance and administer various major housing initiatives, the Board approved the utilization of RIHMFC's program fund balances for program expenses, housing loans, subsidies and trust funds. Most of the programs, once established, are accounted for in the Operating Program. Commitments for Housing Initiatives designation and Other Designated Funds amounted to \$179,159,165 at June 30, 2001. The Trust was established to assist in activities that involve the creation and preservation of affordable housing in the state. The Trust accounts for funds held by the Trust in a trustee capacity where both the corpus and earnings may be spent in fulfillment of a variety of designated purposes. The balance of the Trust was \$18,827,582 at June 30, 2001.

Reserved retained earnings of the R.I. Turnpike and Bridge Authority (RITBA) consists of \$4,804,826 for debt service.

The General Laws authorize the Narragansett Bay Commission (NBC) to maintain a restricted asset account for environmental enforcement funds. These funds consist of sums recovered by administrative or civil enforcement action and may be used for emergency response or enforcement activities. At June 30, 2001, NBC reported \$101,241 of funds reserved for this purpose.

The reserved retained earnings of the R.I. Higher Education Assistance Authority (RIHEAA) is the trust fund balance of the R.I. Higher Education Savings Trust (RIHEST), also known as *CollegeBoundfund*. RIHEST was created by law to provide a qualified state tuition savings program under Section 529 of the Internal Revenue Code. RIHEST is managed by an independent contractor under the supervision of the R.I. State Investment Commission and RIHEAA. The balance held in trust at June 30, 2001 was \$476,629,974.

### **Reserved Fund Balance**

The state and its component units' reserved fund balances represent those portions of fund balance that are (1) not appropriable for expenditure or (2) legally segregated for a specific future use. Reserved fund balances (expressed in thousands) are as follows:

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

	Governmental Fund Types				Fiduciary	Total	Governmental
	General	Special	Debt	Capital	Trust and	Primary	Component
		Revenue	Service	Projects	Agency	Government	Units
Budget reserve	\$ 79,689					\$ 79,689	
Appropriations carried forward							
General revenue	11,056					11,056	
Departmental restricted revenue	34,521					34,521	
Operating transfers in	11,697					11,697	
Encumbrances		212,889		37,894		250,783	27,214
Long-term receivables		1,147				1,147	
Employment insurance programs		96,589			332,107	428,696	
Debt			734	19,188		19,922	1,180
Self-insurance				100		100	
Pension benefits					6,165,522	6,165,522	
Academic college overhead							2,467
Inventory							2,299
Asset protection and capital projects							5,210
Auxiliary enterprises							9,848
Restricted grants, gifts, and aid							1,513
Loan fund							21,989
Trust indenture							1,295
Landscaping fund							20
	<u>\$ 136,963</u>	<u>\$ 310,625</u>	<u>\$ 734</u>	<u>\$ 57,182</u>	<u>\$ 6,497,629</u>	<u>\$ 7,003,133</u>	<u>\$ 73,035</u>

### Changes in General Fund Reserves

The state maintains certain reserves within the General Fund in accordance with the General Laws. These reserves accumulate in the General Fund until withdrawn by statute or used for the intended purposes pursuant to the enabling legislation.

The state maintains a budget reserve in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this reserve account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the bond capital fund to be used for capital projects, debt reduction or debt service. The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the state or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

Appropriations carried forward can only be used for the same purpose as intended in the original budget as enacted by the General Assembly.

The following table summarizes the activity (expressed in thousands) of these reserve accounts for the fiscal year ended June 30, 2001:

	Reserved Fund Balance July 1, as restated	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 71,269	\$ 53,126	\$ (44,706)	\$ 79,689
Appropriations carried forward				
General revenue	21,739	11,056	(21,739)	11,056
Departmental restricted revenue	30,366	34,521	(30,366)	34,521
Operating transfers in	6,448	11,697	(6,448)	11,697
Total	<u>\$ 129,822</u>	<u>\$ 110,400</u>	<u>\$ (103,259)</u>	<u>\$ 136,963</u>

### Designations of Fund Balance

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

Designated fund balances represent that portion of fund balance segregated to indicate management's tentative plans for future financial resource use.

Designated fund balances in the Special Revenue Funds represent unexpended gasoline tax revenue and unexpended bond proceeds (\$31,436,317) and restricted revenue (\$1,518,734) brought forward to fiscal year 2002.

Designated fund balance in the Capital Projects Funds (\$94,480,713) represents funds committed to capital projects.

### Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2001 are presented below (expressed in thousands):

Fund Type/Fund	Operating Transfers			
	In	Out	From Component Units	To Component Units
Primary Government:				
General	\$ 291,988	\$ 50,461	\$ 36,969	\$ 242,823
Special Revenue:				
R.I. Temporary Disability		1,025		
R.I. Underground Storage Tank Fund				872
Intermodal Surface Transportation	43,394	61,129	1,896	61,924
Providence River Relocation	346			
R.I. Economic Policy Council	5,438			
Subtotal	49,178	62,154	1,896	62,796
Capital Projects:				
Bond Capital	44,706	80,656		36,191
R.I. Clean Water Act/ Environmental Trust Fund				2,348
Subtotal	44,706	80,656		38,539
Debt Service		2,775	115	
Enterprise - State Lottery		180,842		
Internal Service - Central Warehouse	317			
Total	\$ 386,189	\$ 376,888	\$ 38,980	\$ 344,158

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

	Operating Transfers	
	To	From
	Primary Government	Primary Government
Component Units:		
Governmental:		
University of Rhode Island	\$ 3,162	\$ 82,134
Rhode Island College	1,031	42,642
Community College of Rhode Island	180	38,968
Central Falls School District		35,191
Subtotal	<u>4,373</u>	<u>198,935</u>
Proprietary:		
R.I. Economic Development Corporation	1,896	13,480
R.I. Convention Center Authority		19,420
R.I. Depositors Economic Protection Corporation	30,203	1,262
R.I. Higher Education Assistance Authority		7,538
R.I. Public Transit Authority	647	36,964
R.I. Public Telecommunications Authority		1,244
R.I. Children's Crusade for Higher Education		1,685
R.I. Resource Recovery	3,115	
Narragansett Bay Commission	633	
Subtotal	<u>36,494</u>	<u>81,593</u>
Total Component Units	<u>\$ 40,867</u>	<u>\$ 280,528</u>

### Reconciliation

	Operating Transfers					
			From	To	To	From
	In	Out	Component Units	Primary Government	Component Units	Primary Government
Amounts recorded	\$ 386,189	\$ 376,888	\$ 38,980	\$ 40,867	\$ 344,158	\$ 280,528
General					1,050	
Special Revenue						
Intermodal Surface Transportation	354					
Pension Trust						
Employees Retirement Fund		8,410				
State Police Retirement Fund		13				
Judicial Retirement Fund		8				
Municipal Employees Retirement Fund		1,224				
Component Units						
Governmental						
University of Rhode Island						16,555
Rhode Island College						5,062
Community College of Rhode Island						8,112
Proprietary						
R.I. Depositors Economic Protection Corporation			1,887			
R.I. Economic Development Corporation						5,203
Narragansett Bay Commission						5
R.I. Clean Water Finance Agency						2,354
R.I. Public Transit Authority						27,389
	<u>\$ 386,543</u>	<u>\$ 386,543</u>	<u>\$ 40,867</u>	<u>\$ 40,867</u>	<u>\$ 345,208</u>	<u>\$ 345,208</u>

The difference of \$9,655,000 between operating transfers in/out occurs because the Employees' Retirement System recorded the transactions as expenses as required by GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. The difference of \$354,000 in the Intermodal Surface Transportation Fund (ISTEA) occurred because the respective prior year's due to/due from recorded in the Bond

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

Capital Fund and ISTEA represented amounts due to/due from the Rhode Island Economic Development Corporation (RIEDC) at the beginning of the fiscal year for a project that RIEDC withdrew from effective July 1, 2000. The difference of \$1,887,000 occurred because the Rhode Island Depositors Economic Protection Corporation recorded the fair value of land that was transferred to the state as an operating transfer to the primary government. The difference of \$1,050,000 occurred because the RIEDC recorded the proceeds of a land transfer as an operating transfer from the primary government. The remaining differences occur because some component units reported funds received from the primary government as contributed capital, grants or increases in fixed assets rather than as operating transfers.

### Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$12,747,000 for the fiscal year ended June 30, 2001

Most of the operating leases contain an option allowing the state, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2001:

Fiscal Year Ending June 30	
2002	\$ 11,685
2003	11,182
2004	10,536
2005	10,008
2006	7,471
Later Years	30,757
Total	<u>\$ 81,639</u>

The minimum payments shown above have not been reduced by any sublease receipts.

### Note 11. Commitments

Commitments (expressed in thousands) arising from encumbrances outstanding at June 30, 2001 are summarized as follows:

General fund (\$5,600 to be funded by federal funds, \$4,000 to be funded substantially by future appropriations and \$12,900 from other sources)	\$ 22,500
Special revenue funds	212,889
Capital projects funds	37,894
	<u>\$ 273,283</u>

Encumbrance accounting, under which contracts, purchase orders and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation during the fiscal year, is employed in the governmental fund types. General Fund encumbrances

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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outstanding at fiscal year end are not reported as a reservation of fund balance. These commitments are funded by future appropriations in the subsequent fiscal year. For financial statement purposes, encumbrances outstanding at June 30 of the Special Revenue Funds and the Capital Projects Funds are shown as a reservation of fund balance.

In fiscal year 1999, the state initiated the development of an integrated financial management information system. The system is expected to be implemented in fiscal year 2002. The state has expended approximately \$4,200,000 thus far and expects to spend \$2,000,000 in fiscal year 2002.

The R.I. Economic Development Corporation (RIEDC) entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the state shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,600,000 in the first five years and \$3,560,000 in years 6 through 20.

The Employees' Retirement System of Rhode Island has contracted with a systems integration firm to design and build a new pension administration system. The total cost to the System is estimated at \$16.8 million, of which \$9.1 million has been expended through June 30, 2001. The remaining cost is estimated at \$7.7 million. Full implementation is expected by the second quarter of fiscal 2004. This will be financed in the same manner as other administrative expenses of the System.

### Component Units

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately \$9,411,000 which is expected to be funded from current available resources and future operations.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$11,696,000 at June 30, 2001.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases II, III, and IV. The capacity of Phase I was reached in May 1993. Phases II and III encompass 34 acres adjoining Phase I. Phase II consists of two areas, referred to as Area I and Area II. Waste disposal commenced on Area II in April 1993 and on Area I in March 1995. Phase III commenced in June 1997. Approximately \$10,621,000 in costs relating to Phase II and \$5,303,000 relating to Phase III have been incurred as of June 30, 2001, and are included in land and improvements in the financial statements. Phase IV consists of four eleven acre cells of which two cells began accepting refuse in September 2000. To date, \$19,598,485 has been expended on legal fees, permitting and engineering costs related to Phase IV, and other costs associated with readying the area for use, including relocation of a brook.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to operate a landfill in the current period. Based on RIRRC's engineers and independent engineering studies, it is estimated that these costs of closure and postclosure activities for Phase I, II and III will be approximately \$39,854,000. The liability at June 30, 2001 is approximately \$27,802,000, with \$12,052,000 remaining to be recognized. RIRRC recognizes an expense and a liability for these

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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costs based on landfill capacity used to date. Based on the estimates of RIRRC's engineers, approximately 98% of landfill capacity for Phase II and III, which has approximately two years of estimated life remaining, has been used to date and approximately 22% of capacity of Phase IV has been used to date which has approximately four years of estimated life remaining. Amounts provided for closure and postclosure are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws and regulations. RIRRC has designated investments in the amount of \$10,623,534 to meet the financial requirements of closure and postclosure costs, and plans to increase these designated investments each year to enable it to pay the costs as they are incurred.

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the landfill and undertake various plans of action. Additionally, in 1986, the landfill was named to the EPA's Superfund National Priorities List. The majority of the studies were completed and were submitted to the EPA for review. During 1996, the RIRRC entered into a consent decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The consent decree, which was approved by the U.S. District Court on October 2, 1996, requires the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The trust is included in restricted assets held in trust on RIRRC's balance sheet. As of June 30, 2001, the market value of the trust was \$25,277,932. The remaining deposit required to be made to the trust fund for fiscal year 2002 is \$166,624. In February 2001, the RIRRC transferred an additional \$498,777 into the trust fund. The present value of the estimated remaining total expenditures relating to groundwater contamination that will be required as a result of the consent decree is estimated to be approximately \$15,146,000 and is recorded in the financial statements, net of the amount included in the trust fund.

RIRRC is required by the R.I. Department of Environmental Management to restore certain wetlands which are located at the Central Landfill. Total costs for this project are estimated to be approximately \$6,100,000.

RIRRC is committed, under various contracts and agreements, for a materials recovery facility and a methane gas collection-flare system.

In addition, RIRRC is required to grant funds to municipalities to assist them in organizing source separation and recycling programs in their communities.

RIRRC has entered into an agreement with the City of Cranston to furnish sewer and water services to RIRRC's Johnston facilities in exchange for payments by RIRRC.

The R.I. Convention Center Authority (RICCA) has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center, parking garages, and hotel. In addition, RICCA has entered into a licensing agreement with a major hotel chain that permits the hotel to use its name, trademark, reservation system and other services.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$8,514,000 under various loan programs at June 30, 2001.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2001 remaining commitments on these contracts approximated \$1,769,000.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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The R.I. Public Transit Authority is committed under construction contracts in the amount of \$10,734,254 at June 30, 2001.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$4,310,909 in student loan reserve funds over a period of five years, such that the total is returned by September 1, 2002.

The University of Rhode Island, Rhode Island College and Community College of Rhode Island have begun a technology modernization of core administration systems. This is being accomplished system wide through the Office of Higher Education and will be financed over a seven-year period beginning in fiscal year 2000 at a cost of \$3,700,000, \$2,200,000, and \$2,500,000, respectively.

### **Note 12. Contingencies**

#### **Primary Government**

The state is involved in various civil lawsuits which could result in monetary loss to the state. The lawsuits are in various developmental stages, some to the point that a favorable decision, with no or minimal loss is anticipated, others, where the outcome and amount of loss, if any, cannot be determined and others which are still in the discovery stage.

#### **Federal Grants**

The state receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. Any disallowances as a result of these audits become a liability of the state. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

#### **Moral Obligation Bonds**

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the state when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2001 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$180,798,795 and \$59,756,495 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the state will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the state anticipates paying approximately \$2,489,000 of the debt on the related economic development revenue bonds in fiscal year 2002.

#### **Component Units**

**R.I. Student Loan Authority**

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The RISLA also maintains a standby letter of credit in the original stated amount of \$30,000,000 on its March 2000 issue. The letters of credit will expire on the earliest to occur: a) July 28, 2004, for the January 1995 and April 1996 issue, and March 15, 2003 for the March 2000 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

The RISLA also has an available \$20,000,000 line of credit. Interest is based upon one month London Inter-Bank Offer Rate (LIBOR) plus thirty basis points adjusted weekly. The line of credit is secured by eligible loans of RISLA. Minimum drawdowns on the line of credit are \$100,000 and all proceeds are to be used to purchase or originate eligible student loans. As of June 30, 2001, there was no outstanding balance.

**R.I. Public Transit Authority**

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2001.

**Note 13. Employer Pension Plans**

**Plan Descriptions**

The state, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most state employees. The state does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to state employees, which is subject to amendment by the general assembly, is established by the General Laws as listed below. In addition to the state, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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## Notes to General-Purpose Financial Statements

may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

### **Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. The gains or losses on foreign currency exchange contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. Investment transactions are recorded on a trade date basis.

#### **Method Used to Value Investments**

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued by the respective fund manager. Short-term investments are stated at cost, which approximates fair value. Unit Investment Trusts (UIT) consist primarily of domestic and international institutional funds. The fair value of the UITs are based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

#### **Funding Policy and Annual Pension Cost**

The state's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below. The most recent actuarial information may be found in the separately issued audit report referred to above.

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	7.99%	25.89%	31.09%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	4.34% and 5.16%		
Annual pension cost	\$79,906	\$1,820	\$1,164
Contributions made - state employees	\$44,541	\$1,820	\$1,164
Contributions made - teachers	\$35,365		
Actuarial valuation date	June 30, 1998	June 30, 1998	June 30, 1998
Actuarial cost method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	17 years	24 years	29 years
Asset valuation method	4 Year Moving Average	4 Year Moving Average	4 Year Moving Average
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.75% to 8.75%	5% to 15.00%	5.50%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	3% compounded annually	\$1,500 per annum	3% of original retirement, compounding varies
Level of benefits established by:			
General Law(s)	36-8 to 10	42-28-22.1	8-3-16, 8-8-10.1, 8-8-2-7 and 28-30-18.1

### Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/99	\$ 78,729	100%	\$ 0
	6/30/00	85,073	100%	0
	6/30/01	79,906	100%	0
State Police Retirement Benefits Trust	6/30/99	631	100%	0
	6/30/00	1,509	100%	0
	6/30/01	1,820	100%	0
Judicial Retirement Benefits Trust	6/30/99	737	100%	0
	6/30/00	1,008	100%	0
	6/30/01	1,164	100%	0

## Other

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$10,698,793 during the year ended June 30, 2001.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2001 was \$2,354,640. At July 1, 2000, the most recent valuation date, the total pension benefit obligation was \$36,060,281 and net assets available for benefits were \$19,525,620.

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

## Note 14. Postemployment Benefits

In accordance with the General Laws, postretirement health care benefits are provided to state employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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retirees. The state's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2001, the state contributed 0.98% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2001 were \$5,189,298, net of retirees' contributions for the 3,517 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$1,078,250 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$1,067 for each of the 1,011 retirees covered by the plans).

The above plans are financed on a pay-as-you-go basis.

### **Note 15. Deferred Compensation**

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or "unforeseeable emergency".

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The state does not serve in a trustee capacity. Accordingly, the plan assets are not included in the financial statements.

### **Note 16. Fund Deficits**

The Federal Surplus Property Internal Service Fund reported a deficit of \$500 at June 30, 2001. Future revenues or an operating transfer from the General Fund will fund this deficit.

The R.I. Convention Center Authority reported a deficit of \$53,128,029 at fiscal year ended June 30, 2001. This deficit will be funded by future revenues.

The R.I. Public Transit Authority reported a deficit of \$5,962,769 at fiscal year ended June 30, 2001. This deficit will be funded by future revenues.

The R.I. Water Resources Board Corporate reported a deficit of \$1,035,160 at fiscal year ended June 30, 2001. This deficit will be funded by future revenues.

### **Note 17. Restatement of Fund Equity**

Certain restatements of fund equity balances, as of June 30, 2000, are summarized in the following table (expressed in thousands):

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

	June 30, 2000 Fund Equity As Previously Reported	Adjustments	July 1, 2000 Fund Equity Restated
<b>Primary Government</b>			
General Fund	\$ 213,763	\$ 7,980	\$ 221,743
Special Revenue Funds			
Employment Insurance - Interest Fund	\$ 473	\$ (473)	\$
Employment Insurance - Tardy Fund	498	(498)	
Employment Insurance - Job Development Fund	7,009	(7,009)	
R.I. Temporary Disability Insurance Fund	54,910	34,910	89,820
Other Special Revenue Funds	24,910		24,910
	<u>\$ 87,800</u>	<u>\$ 26,930</u>	<u>\$ 114,730</u>
Internal Service Funds			
Workers' Compensation	\$ (58)	\$ 58	\$
Assessed Fringe Benefits	7	(58)	(51)
Other Internal Service Funds	5,430		5,430
	<u>\$ 5,379</u>	<u>\$</u>	<u>\$ 5,379</u>
Trust and Agency Funds			
Employment Security Trust Fund	\$ 282,607	\$ 37,431	\$ 320,038
Other Trust and Agency Funds	7,070,360		7,070,360
	<u>\$ 7,352,967</u>	<u>\$ 37,431</u>	<u>\$ 7,390,398</u>
<b>Proprietary Component Units</b>			
R.I. Economic Development Corp.	\$ 260,627	\$ (13,574)	\$ 247,053
Other Proprietary Component Units	741,633		741,633
	<u>\$ 1,002,260</u>	<u>\$ (13,574)</u>	<u>\$ 988,686</u>

Effective July 1, 2000, the Employment Insurance Funds (Federal Programs, Interest, Tardy, and Job Development Funds) are no longer included within the Special Revenue Funds. The assets, liabilities and fund balances of these funds were transferred to the General Fund.

The beginning fund balances of the Rhode Island Temporary Disability Insurance Fund and the Employment Security Trust Fund have been restated to comply with GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions."

The beginning retained earnings of the Assessed Fringe Benefit Internal Service Fund has been restated to include the Workers' Compensation Internal Service Fund.

The beginning retained earnings of the R.I. Economic Development Corporation was restated to correct errors resulting in the overstatement of previously reported assets and to correct the reporting of capitalized costs.

### Note 18. Segment Information

Segment information for the governmental and proprietary component units is presented (expressed in thousands) in the following schedules:

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

<b>Governmental</b>	<b>URI</b>	<b>RIC</b>	<b>CCRI</b>	<b>CFSD</b>
Due from primary government	\$ 858	\$ 867	\$ 422	\$
Other current assets	67,528	16,153	8,585	5,659
General fixed assets	19,237			
Amounts available in debt service fund		209	591	
Amounts to be provided for retirement of GLTD	87,570	22,451	10,378	1,288
Due to primary government	901	402	496	
Other current liabilities	38,742	8,794	5,098	3,278
Bonds payable	87,323	13,555	4,063	
Other long-term liabilities	39,635	9,526	6,907	1,288
Revenues	218,019	47,759	34,454	2,396
Current expenditures	290,022	87,052	71,475	35,619
Capital outlay expenditures	26,650	2,322	1,376	920
Debt service expenditures	2,459	250	419	
Transfers from primary government	82,134	42,642	38,968	35,191
Excess of revenues and expenditures	(13,844)	1,106	(27)	1,048
Net gain from proprietary operations	13,881			

<b>Proprietary</b>	<b>RIHMFC</b>	<b>RISLA</b>	<b>RITBA</b>	<b>RIEDC</b>	<b>RICCA</b>	<b>NBC</b>
Due from primary government	\$	\$	\$	\$ 666	\$	\$
Other current assets	2,004,154	776,333	38,636	182,664	31,521	28,839
Fixed assets (net)	15,229	435	47,605	326,586	213,566	229,792
Due to primary government					2,235	32
Other current liabilities	48,515	17,711	1,798	7,619	5,615	8,027
Bonds payable	1,540,657	715,540	40,661	244,996	295,011	18,321
Other long-term liabilities	203,121			42,554	2,053	53,254
Operating revenue	130,341	55,344	11,224	44,257	41,367	29,819
Operating expenses	117,346	47,999	4,427	38,252	33,506	23,219
Depreciation, depletion and amortization	2,742	460	855	14,602	9,207	5,388
Operating income (loss)	10,253	6,885	5,941	(8,597)	(1,346)	1,212
Transfers from primary government				13,480	19,420	
Transfers to primary government				(1,896)		(634)
Net income (loss)	9,358	6,885	7,300	(7,240)	785	(43)
Current capital contribution				(20,616)		5

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

Proprietary	RIHEBC	RIRRC	DEPCO	RIHEAA	RIPTA	RIIFC
Due from primary government	\$	\$	\$	\$ 9	\$ 2,379	\$
Other current assets	9,862	19,984	14,724	504,560	24,752	1,129
Fixed assets (net)	10	53,796	19	1,496	75,435	
Due to primary government			1,000	33	1,647	
Other current liabilities	13	5,139	628	25,250	25,998	11
Bonds payable						
Other long-term liabilities		42,948	253	1,370	20	654
Operating revenue	1,161	52,092	22,560	5,811	12,100	176
Operating expenses	514	34,504	2,384	12,596	53,583	12
Depreciation, depletion and amortization	4	9,373	2	184	5,703	
Operating income (loss)	644	8,215	20,175	(6,969)	(47,186)	164
Transfers from primary government			1,262	7,538	36,964	
Transfers to primary government		(3,115)	(30,203)		(647)	
Net income (loss)	995	5,100	(6,850)	1,685	(4,965)	(69)
Current capital contribution					28,099	

Proprietary	RICWFA	RIIRBA	RIWRBC	RIPTCA	RICCHE
Due from primary government	\$	\$	\$	\$	\$
Other current assets	308,645	3,914	7,873	2,446	11,319
Fixed assets (net)	36	635		4,681	105
Due to primary government				11	
Other current liabilities	3,665	23	1,257	541	457
Bonds payable	178,039		15,940		
Other long-term liabilities		2,419		6,278	55,750
Operating revenue	13,688	381	1,715	1,559	1,891
Operating expenses	10,548	1,701	28	3,236	6,055
Depreciation, depletion and amortization	83	14	113	767	70
Operating income (loss)	3,057	(1,334)	1,574	(2,444)	(4,233)
Transfers from primary government				1,244	1,685
Transfers to primary government					
Net income (loss)	18,237	(1,160)	(330)	237	(1,256)
Current capital contribution					

### Note 19. Risk Management

The state is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury; and natural disasters.

The state has entered into agreements with commercial insurance companies for comprehensive insurance coverage on state property to protect the state against loss from fire and other risks. Furthermore, the state is required by the General Laws to provide insurance coverage on all motor vehicles owned by the state and operated by state employees in the sum of \$100,000 per person and \$300,000 per accident for personal injury and \$20,000 for property damage. The state also contracts with various insurance carriers and health maintenance organizations to provide health care benefits to employees.

The state is self-insured for risks of loss related to torts. Tort claims are defended by the state's Attorney General and, when necessary, appropriations are provided to pay claims.

The state is self-insured for various risks of loss related to work related injuries of state employees. The state maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to state payrolls.

There are no funds reserved for pending claims or incurred but not reported liabilities.

### Note 20. Extraordinary Items

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

## Notes to General-Purpose Financial Statements

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The R.I. Housing and Mortgage Finance Corporation periodically retires bonds prior to the redemption date. Deferred bond issuance costs, along with any premium paid on the call, in the amount of \$895,453 were reported as an extraordinary loss in fiscal year 2001.

The R.I. Depositors Economic Protection Corporation reported an extraordinary item of \$904,749. This was the net result of reporting an accounting gain of \$975,800 on the restructure of the existing escrow for defeased special obligation bonds and an accounting loss of \$71,051 on a debt defeasance that was funded through the liquidation of assets, net settlements and excess state sales tax.

### **Note 21. Related Party Transactions**

The R.I. Depositors Economic Protection Corporation (DEPCO) is entitled by statute to six-tenths of one percent within the state's sales and use tax rate. Payment to DEPCO requires an annual appropriation by the General Assembly. The General Assembly is not legally bound or obligated to make such appropriations. Due to the final defeasance of all remaining outstanding bonds on August 3, 2000, the payment agreement between DEPCO and the State was terminated effective August 28, 2000. During fiscal year 2001, DEPCO received \$10,744,323 in sales tax payments which included \$9,482,634 due at June 30, 2000 and payments totaling \$1,261,689 for the period through termination of the payment agreement between DEPCO and the State effective August 28, 2000.

The R.I. Resource Recovery Corporation (RIRRC) entered into a lease and agreement with the state whereby the RIRRC agreed to lease the landfill to the state. Pursuant to this lease and agreement RIRRC issued \$5,000,000 of notes on July 29, 1999. The principal and interest on these notes are secured by rentals as set forth in the lease and agreement. The notes were due on July 30, 2000. On July 29, 2000, the \$5,000,000 and \$200,000 of accrued interest were paid out of available cash and investments.

Funds held by the University of Rhode Island Foundation for the future use of the university and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2001 amounted to \$75,446,610. Distributions of \$12,162,519 during the fiscal year ended June 30, 2001 are included in private gift revenue of the university.

Funds held by the Rhode Island College Foundation for the future use of the college and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2001 amounted to approximately \$9,500,000. There were no distributions to RIC during the fiscal year ended June 30, 2001.

As of June 30, 2001, the Employees' Retirement System held investments in bonds issued by the R.I. Housing and Mortgage Finance Corporation having a fair value of \$3,776,503. This corporation is included as a component unit in the accompanying general-purpose financial statements.

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the state, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The state entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation providing for the

# STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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## Notes to General-Purpose Financial Statements

lease and/or transfer from the state to the RIAC all real, personal, and tangible property; intangible property, including accounts receivable, contract rights, choices in action, licenses, permits, grants, and entitlements; and all other assets of the state used or used primarily in connection with the administration, maintenance, management, regulation, operation, improvement, development or use of the state's six airports and other air facilities. RIAC agrees to reimburse the state for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 35 years beginning July 1, 1993, with annual rent of \$1.00.

### **Note 22. Subsequent Events**

#### **Primary Government**

In July 2001, the state issued \$135,400,000 of general obligation serial bonds. The interest rate on these bonds ranged from 3.25% to 5.50% with maturities from 2002 to 2020.

#### **Component Units**

In August, November and December 2001, the R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued bonds in the amount of \$118,785,000, \$51,300,000 and \$63,705,000, respectively. Additionally in October 2001, RIHMFC called \$78,190,000 of bonds outstanding at June 30, 2001.

In November 2001, the R.I. Convention Center Authority issued refunding revenue bonds in the amount of \$101,315,000 to advance refund \$91,885,000 of its 1993 Series A Bonds.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULES OF FUNDING PROGRESS***(Expressed in thousands)***Employees' Retirement System**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Unfunded Frozen Actuarial Liability (UFAL) (b)</b>	<b>Frozen Initial Liability (c) = (a + b)</b>	<b>Funded Ratio (a / c)</b>	<b>Covered Payroll (d)</b>	<b>Excess as a Percentage of Covered Payroll (b / d)</b>
6/30/1998	5,121,478	1,454,527	6,576,005	77.9%	1,113,567	130.6%
6/30/1999	5,460,907	1,114,020	6,574,927	83.1%	1,168,300	95.4%
6/30/2000	5,859,719	1,375,068	7,234,787	81.0%	1,220,833	112.6%

**State Police Retirement Benefits Trust**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Unfunded Frozen Actuarial Liability (UFAL) (b)</b>	<b>Frozen Initial Liability (c) = (a + b)</b>	<b>Funded Ratio (a / c)</b>	<b>Covered Payroll (d)</b>	<b>Excess as a Percentage of Covered Payroll (b / d)</b>
6/30/1998	6,757	581	7,338	92.1%	7,212	8.1%
6/30/1999	8,481	2,361	10,842	78.2%	7,502	31.5%
6/30/2000	11,337	2,581	13,918	81.5%	8,917	28.9%

**Judicial Retirement Benefits Trust**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Unfunded Frozen Actuarial Liability (UFAL) (b)</b>	<b>Frozen Initial Liability (c) = (a + b)</b>	<b>Funded Ratio (a / c)</b>	<b>Covered Payroll (d)</b>	<b>Excess as a Percentage of Covered Payroll (b / d)</b>
6/30/1998	4,120	929	5,049	81.6%	3,040	30.6%
6/30/1999	5,522	1,894	7,416	74.5%	3,169	59.8%
6/30/2000	7,375	2,345	9,720	75.9%	3,533	66.4%

**Schedule of Expenditures  
of Federal Awards**



Schedule of Expenditures of  
Federal Awards

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Note: See page A-1 for *Independent Auditor’s Report on General-Purpose Financial Statements and Supplementary Schedule of Expenditures of Federal Awards*

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2001

Federal Grantor Program Title	CFDA Number	Total Expenditures
<b>U.S. Department of Agriculture</b>		
Inspection Grading and Standardization	10.162	\$ 36,299
Very Low to Moderate Income Housing Loans (See Note 2)	10.410	1,166,844
Rural Housing Preservation Grants	10.433	69,478
Food Distribution (See Note 2)	10.550	3,110,888
Food Stamp Cluster:		
Food Stamps	10.551	58,614,416
State Administrative Matching Grants for Food Stamp Program	10.561	5,707,466
Child Nutrition Cluster:		
School Breakfast Program	10.553	3,264,506
National School Lunch Program	10.555	15,794,767
Special Milk Program for Children	10.556	98,402
Summer Food Service Program for Children	10.559	1,197,782
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557	16,689,734
Child and Adult Care Food Program	10.558	4,883,522
State Administrative Expenses for Child Nutrition	10.560	530,159
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	136,915
Nutrition Program for the Elderly (Commodities)	10.570	512,694
Team Nutrition Grants	10.574	203,206
Cooperative Forestry Assistance	10.664	827,521
		\$ 112,844,599
<b>Total U.S. Department of Agriculture (See Note 1)</b>		
<b>U.S. Department of Commerce</b>		
Public Works and Economic Development Cluster:		
Grants for Public Works and Economic Development (B)	11.300	\$ 66,176
Economic Adjustment Assistance	11.307	51
Economic Development - Support for Planning Organizations	11.302	124,440
Interjurisdictional Fisheries Act of 1987	11.407	68,681
Coastal Zone Management Administration Awards	11.419	1,014,028
Coastal Zone Management Estuarine Research Reserves	11.420	258,830
Unallied Management Projects	11.454	34,402
Coastal Services Center	11.473	58,135
Atlantic Coastal Fisheries Cooperative Management Act (B)	11.474	127,134
		\$ 1,751,877
<b>Total U.S. Department of Commerce (See Note 1)</b>		
<b>U.S. Department of Defense</b>		
Procurement and Technical Assistance for Business Firms	12.002	\$ 262,645
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	134,819
Federal Grants - Rhode Island National Guard	N/A	4,311,768
		\$ 4,709,232
<b>Total U.S. Department of Defense (See Note 1)</b>		
<b>U.S. Department of Housing and Urban Development</b>		
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families	14.103	\$ 763,712

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2001

<b>Federal Grantor</b> Program Title	CFDA Number	Total Expenditures
Mortgage Insurance - Homes (See Note 2)	14.117	37,081,796
Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures (See Note 2)	14.142	245,245
Section 8 Project-Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	69,736,782
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	457,752
Home Equity Conversion Mortgages (See Note 2)	14.183	21,661,736
Community Development Block Grants/State's Program	14.228	6,519,273
Emergency Shelter Grants Program	14.231	348,742
Supportive Housing Program	14.235	3,512,149
Shelter Plus Care	14.238	353,465
HOME Investment Partnerships Program	14.239	2,982,824
Housing Opportunities for Persons with AIDS	14.241	396,631
Fair Housing Assistance Program - State and Local	14.401	124,049
Section 8 Cluster:		
Section 8 Housing Choice Vouchers	14.871	4,741,973
Lead Based Paint Hazard Control in Privately-Owned Housing	14.900	1,421,353
<b>Total U.S. Department of Housing and Urban Development (See Note 1)</b>		<b>\$ 150,347,482</b>
<b>U.S. Department of Interior</b>		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	\$ 2,851,551
Wildlife Restoration	15.611	748,185
Coastal Wetlands Planning, Protection and Restoration Act	15.614	423,880
Clean Vessel Act	15.616	43,267
Historic Preservation Fund Grants-In-Aid	15.904	540,721
Outdoor Recreation - Acquisition, Development and Planning	15.916	184,080
National Maritime Heritage Grants	15.925	13,234
<b>Total U.S. Department of Interior</b>		<b>\$ 4,804,918</b>
<b>U.S. Department of Justice</b>		
Law Enforcement Assistance - Narcotics and Dangerous Drugs - Laboratory Analysis	16.001	\$ 25,000
Juvenile Accountability Incentive Block Grants	16.523	1,368,195
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	813,758
Juvenile Justice and Delinquency Prevention - Special Emphasis	16.541	97,357
Gang-Free Schools and Communities - Community-Based Gang Intervention	16.544	50,256
Victims of Child Abuse	16.547	55,001
Title V - Delinquency Prevention Program	16.548	16,944
State Justice Statistics Program for Statistical Analysis Centers	16.550	90,328
National Criminal History Improvement Program	16.554	93,760
National Sex Offender Registry Assistance	16.555	427
Crime Victim Assistance	16.575	1,206,035
Crime Victim Compensation	16.576	1,227,591
Byrne Formula Grant Program	16.579	2,487,738

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2001

<b>Federal Grantor</b> Program Title	CFDA Number	Total Expenditures
Edward Byrne Memorial State and Local Law Enforcement		
Discretionary Grants Program	16.580	15,634
Drug Court Discretionary Grant Program	16.585	679,577
Violence Against Women Formula Grants	16.588	1,434,548
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	176,583
Local Law Enforcement Block Grants Program	16.592	8,803
State Identification Systems Grant Program	16.598	149,828
State Criminal Alien Assistance Program	16.606	1,646,427
Closed-Circuit Televising of Child Victims of Abuse	16.611	93,577
Public Safety Partnership and Community Policing Grants	16.710	52,379
Enforcing Underage Drinking Laws Program	16.727	457,346
<b>Total U.S. Department of Justice (See Note 1)</b>		<b>\$ 12,247,092</b>
<b>U.S. Department of Labor</b>		
Labor Force Statistics	17.002	\$ 681,612
Compensation and Working Conditions	17.005	13,177
Employment Services Cluster:		
Employment Service	17.207	2,613,713
Disabled Veterans' Outreach Program	17.801	317,684
Local Veterans' Employment Representative Program	17.804	340,629
Unemployment Insurance (See Note 5)	17.225	164,874,975
Senior Community Service Employment Program	17.235	546,535
Trade Adjustment Assistance - Workers	17.245	8,124,284
JTPA Cluster:		
Employment and Training Assistance - Dislocated Workers	17.246	448,298
Job Training Partnership Act	17.250	83,986
Welfare-to-Work Grants to States and Localities	17.253	2,680,138
Workforce Investment Act	17.255	6,184,334
<b>Total U.S. Department of Labor (See Note 1)</b>		<b>\$ 186,909,365</b>
<b>U.S. Department of Transportation</b>		
Boating Safety Financial Assistance	20.005	\$ 453,006
Airport Improvement Program	20.106	10,233,397
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	159,854,430
Motor Carrier Safety	20.217	594,814
National Motor Carrier Safety	20.218	452,374
Local Rail Freight Assistance	20.308	114,982
Federal Transit Cluster:		
Federal Transit - Capital Investment Grants	20.500	5,445,307
Federal Transit - Formula Grants	20.507	27,418,108
Federal Transit - Metropolitan	20.505	163,031
Public Transportation for Nonurbanized Areas	20.509	787,156
Capital Assistance for Elderly Persons and Persons with Disabilities	20.513	5,398

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2001

<b>Federal Grantor</b> Program Title	CFDA Number	Total Expenditures
Highway Safety Cluster:		
State and Community Highway Safety	20.600	1,400,564
Pipeline Safety	20.700	54,845
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	63,149
Freight Rail Improvement Project	None	7,021,929
<b>Total U.S. Department of Transportation (See Note 1)</b>		<b>\$ 214,062,490</b>
<b>Equal Opportunity Employment Commission</b>		
Employment Discrimination - State and Local Fair		
Employment Practices Agency Contracts	30.002	\$ 187,856
<b>Total Equal Opportunity Employment Commission (See Note 1)</b>		<b>\$ 187,856</b>
<b>General Services Administration</b>		
Donation of Federal Surplus Property (See Note 2)	39.003	\$ 566,503
<b>Total General Services Administration (See Note 1)</b>		<b>\$ 566,503</b>
<b>National Foundation on the Arts and the Humanities</b>		
Promotion of The Arts - Partnership Agreements	45.025	\$ 455,048
Promotion of the Arts - Leadership Initiatives	45.026	20,021
State Library Program	45.310	720,222
<b>Total National Foundation on the Arts and the Humanities (See Note 1)</b>		<b>\$ 1,195,291</b>
<b>National Science Foundation</b>		
Mathematical and Physical Sciences	47.049	\$ 130
Education and Human Resources	47.076	62,580
<b>Total National Science Foundation (See Note 1)</b>		<b>\$ 62,710</b>
<b>U.S. Department of Veteran's Affairs</b>		
Veterans Domiciliary Care	64.008	\$ 4,525,079
Veterans Housing - Guaranteed and Insured Loans (See Note 2)	64.114	3,159,046
All-Volunteer Force Educational Assistance	64.124	8,502
State Cemetery Grants	64.203	275,705
<b>Total U.S. Department of Veteran's Affairs (See Note 1)</b>		<b>\$ 7,968,332</b>
<b>Environmental Protection Agency</b>		
Air Pollution Control Program Support	66.001	\$ 1,458,136
State Indoor Radon Grants	66.032	76,710
Water Pollution Control - State and Interstate Program Support	66.419	724,799
State Public Water System Supervision	66.432	306,713
State Underground Water Source Protection	66.433	118,869
National Estuary Program	66.456	184,844

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2001

Federal Grantor Program Title	CFDA Number	Total Expenditures
Capitalization Grants for State Revolving Funds	66.458	10,972,966
Nonpoint Source Implementation Grants	66.460	1,074,151
Wetlands Grants	66.461	35,603
Water Quality Cooperative Agreements	66.463	461,099
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	4,798
Capitalization Grants for Drinking Water State Revolving Fund	66.468	2,874,755
Environmental Protection Consolidated Grants - Program Support	66.600	94,407
Surveys, Studies, Investigations and Special Purpose Grants	66.606	448,407
Innovative Community Partnership	66.651	28,028
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	313,598
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	66.707	370,950
Pollution Prevention Grants Program	66.708	29,011
Hazardous Waste Management State Program Support	66.801	223,455
Superfund State Site-Specific Cooperative Agreements	66.802	582,072
State and Tribal Underground Storage Tanks Program	66.804	79
Leaking Underground Storage Tank Trust Fund Program	66.805	502,905
Solid Waste Management Assistance	66.808	4,043
CEPP Technical Assistance Grants Program (B)	66.810	15
<b>Total Environmental Protection Agency (See Note 1)</b>		<b>\$ 20,890,413</b>
<b>U.S. Department of Energy</b>		
State Energy Program	81.041	\$ 575,838
Weatherization Assistance for Low-Income Persons	81.042	653,186
Office of Science Financial Assistance Program	81.049	59,992
Conservation Research and Development	81.086	702
<b>Total U.S. Department of Energy (See Note 1)</b>		<b>\$ 1,289,718</b>
<b>Federal Emergency Management Agency</b>		
Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	83.011	\$ 3,969
Community Assistance Program - State Support Services Element (CAP - SSSE)	83.105	90,867
First Responder Counter-Terrorism Training Assistance	83.547	56,650
Emergency Management Performance Grants	83.552	1,184,090
<b>Total Federal Emergency Management Agency (See Note 1)</b>		<b>\$ 1,335,576</b>
<b>U.S. Department of Education</b>		
Adult Education - State Grant Program	84.002	\$ 1,970,969
Student Financial Assistance Cluster: (See Note 6)		
Federal Supplemental Educational Opportunity Grants	84.007	2,413,413
Federal Family Education Loans (See Note 2)	84.032	62,877,602
Federal Work-Study Program	84.033	1,417,095
Federal Perkins Loan Program-Federal Capital Contribution (See Note 2)	84.038	13,552,224
Federal Pell Grant Program	84.063	13,256,466
Title I Grants to Local Educational Agencies	84.010	23,186,897

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2001

<b>Federal Grantor</b> Program Title	CFDA Number	Total Expenditures
Migrant Education - Basic State	84.011	73,026
Title I Program for Neglected and Delinquent Children	84.013	291,027
Children with Deaf/Blindness	84.025	19,550
Special Education Cluster:		
Special Education - Grants to States	84.027	18,895,371
Special Education - Preschool Grants	84.173	1,825,102
Preparation of Personnel	84.029	232,227
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032	2,687,026
TRIO Cluster:		
TRIO-Student Support Services	84.042	499,845
TRIO-Talent Search	84.044	294,950
TRIO-Upward Bound	84.047	495,792
TRIO-Educational Opportunity Centers	84.066	565,403
Vocational Education - Basic Grants	84.048	5,631,132
Leveraging Educational Assistance Partnership	84.069	221,634
Fund for the Improvement of Postsecondary Education	84.116	183,303
Rehabilitation Services -Vocational Rehabilitation Grants to States	84.126	8,227,987
Rehabilitation Long-Term Training	84.129	19,468
National Institute on Disability and Rehabilitation Research	84.133	27,690
Secondary Education and Transitional Services for Youth with Disabilities	84.158	618,251
Immigrant Education	84.162	836,849
Magnet Schools Assistance	84.165	20,040
Independent Living - State Grants	84.169	298,128
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	364,109
Special Education - Grants for Infants and Families With Disabilities	84.181	2,147,711
Safe and Drug-Free Schools and Communities - National Programs	84.184	54,442
Byrd Honors Scholarships	84.185	145,500
Safe and Drug-Free Schools and Communities - State Grants	84.186	2,190,302
Supported Employment Services for Individuals with Severe Disabilities	84.187	144,223
Bilingual Education Support Services	84.194	98,066
Bilingual Education - Professional Development	84.195	35,629
Education for Homeless Children and Youth	84.196	89,793
Even Start - State Educational Agencies	84.213	661,512
Fund for the Improvement of Education	84.215	355,120
Capital Expenses	84.216	43,297
Assistive Technology	84.224	419,003
Tech-Prep Education	84.243	639,602
National Institute for Literacy	84.257	10
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	1,596,245
Eisenhower Professional Development State Grants	84.281	1,498,014
Charter Schools	84.282	509,732
Twenty-First Century Community Learning Centers	84.287	214,921
Innovative Education Program Strategies	84.298	1,694,315
Technology Innovation Challenge Grants	84.303	387,684
Technology Literacy Challenge Fund Grants	84.318	2,078,784

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2001

Federal Grantor Program Title	CFDA Number	Total Expenditures
Special Education - Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	132,378
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	65,022
Advanced Placement Incentive Program	84.330	3,712
Grants to States for Incarcerated Youth Offenders	84.331	14,664
Comprehensive School Reform Demonstration (A)	84.332	429,519
Demonstration Project to Ensure Students with Disabilities Receive a Higher Education	84.333	125,025
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,578,815
Teacher Quality Enhancement Grants	84.336	876,462
Reading Excellence	84.338	668,106
Class Size Reduction	84.340	7,669,969
Occupational and Employment Information State Grants	84.346	90,941
National Writing Project	84.928	23,345
National Writing Project	84.994	4,690
School to Work Opportunities Act of 1994	None	1,562,552
<b>Total U.S. Department of Education (See Note 1)</b>		<b>\$ 189,251,681</b>
<b>National Archives and Records Administration</b>		
National Historical Publications and Records Grants	89.003	\$ 31,262
<b>Total National Archives and Records Administration (See Note 1)</b>		<b>\$ 31,262</b>
<b>U.S. Department of Health and Human Services</b>		
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	\$ 158,260
Special Programs for the Aging - Title VII, Chapter 3 - Programs for the Prevention of Elder Abuse, Neglect, and Exploitation	93.041	15,986
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	42,237
Special Programs for the Aging-Title III, Part F - Disease Prevention and Health Promotion Services	93.043	96,152
Aging Cluster:		
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	2,267,750
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045	2,097,029
Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	93.048	43,961
New Demonstration Grants to States with Respect to Alzheimer's Disease	93.051	241,343
Nation Family Caregiver Support Program	93.052	11,307
Food and Drug Administration - Research	93.103	1,075
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	1,420,187
Maternal and Child Health Federal Consolidated Programs	93.110	137,547
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	422,349
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	413,677

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2001

Federal Grantor Program Title	CFDA Number	Total Expenditures
Emergency Medical Services for Children	93.127	103,658
Primary Care Services - Resource Coordination Development Primary Care Offices	93.130	220,124
Injury Prevention and Control Research and State Community Based Programs	93.136	293,279
Projects for Assistance in Transition from Homelessness (PATH)	93.150	298,295
Health Program for Toxic Substances and Disease Registry	93.161	24,521
Grants for State Loan Repayment	93.165	129,384
Research Related to Deafness and Communication Disorders	93.173	52,315
Disabilities Prevention	93.184	327,918
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	824,716
Family Planning - Services	93.217	682,228
Consolidated Knowledge Development and Application Program	93.230	557,395
Traumatic Brain Injury - State Demonstration Grant Program	93.234	7,484
Abstinence Education	93.235	87,528
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	219,773
Policy Research and Evaluation Grants	93.239	14,961
Mental Health Research Grants	93.242	78,404
Innovative Food Safety Projects	93.245	35,122
Universal Newborn Hearing Screening	93.251	91,248
Immunization Grants	93.268	1,091,290
Drug Abuse National Research Service Awards for Research Training	93.278	11,078
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	3,086,463
Student Financial Assistance Cluster: (See Note 6) Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students (See Note 2)	93.342	1,487,108
Nursing Student Loans (See Note 2)	93.364	1,060,425
Cancer Detection and Diagnosis Research	93.394	1,136
Cancer Control	93.399	587
Promoting Safe and Stable Families	93.556	1,048,368
Temporary Assistance for Needy Families	93.558	102,414,167
Family Support Payments to States - Assistance Payments	93.560	12,455
Child Support Enforcement	93.563	7,385,354
Refugee and Entrant Assistance - State Administered Programs	93.566	417,616
Low-Income Home Energy Assistance	93.568	17,522,168
Community Services Block Grant	93.569	3,118,999
Community Services Block Grant - Discretionary Awards	93.570	91,659
Child Care Cluster: Child Care and Development Block Grant	93.575	3,615,391
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11,063,273
Grants to States for Access and Visitation Programs	93.597	108,297
Empowerment Zones Program	93.585	251,080
State Court Improvement Program	93.586	112,090
Head Start	93.600	105,195
Developmental Disabilities Basic Support and Advocacy Grants	93.630	408,971
Developmental Disabilities Projects of National Significance	93.631	31,538
Developmental Disabilities University Affiliated Programs	93.632	270,959

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2001

Federal Grantor Program Title	CFDA Number	Total Expenditures
Children's Justice Grants to States	93.643	72,252
Child Welfare Services - State Grants	93.645	833,705
Adoption Opportunities	93.652	184,606
Foster Care - Title IV-E	93.658	13,893,781
Adoption Assistance	93.659	4,732,975
Social Services Block Grant	93.667	9,747,099
Child Abuse and Neglect State Grants	93.669	109,740
Family Violence Prevention and Services - Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	693,927
Independent Living	93.674	409,783
State Children's Insurance Program	93.767	15,058,000
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	611,888
State Survey and Certification of Health Care Providers and Suppliers	93.777	2,136,912
Medical Assistance Program (See Notes 1 and 4)	93.778	693,739,644
Health Care Financing Research, Demonstrations and Evaluations	93.779	85,035
Grants to States for Operation of Offices of Rural Health	93.913	59,975
HIV Care Formula Grants	93.917	2,491,967
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	1,332,481
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	619,782
HIV Prevention Activities - Health Department Based	93.940	1,398,931
Block Grants for Community Mental Health Services	93.958	1,277,554
Block Grants for Prevention and Treatment of Substance Abuse	93.959	5,845,359
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	373,968
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	744,833
Preventive Health and Health Services Block Grant	93.991	664,653
Maternal and Child Health Services Block Grant to the States	93.994	1,459,768
		<u>\$ 924,711,498</u>
<b>Total U.S. Department of Health and Human Services (See Note 1)</b>		
<b>Corporation for National and Community Service</b>		
Learn and Serve America - School and Community Based Programs	94.004	\$ 14,826
Learn and Serve America - Higher Education	94.005	35,647
Americorps	94.006	347,691
Foster Grandparent/Senior Companion Cluster:		
Senior Companion Program	94.016	349,223
		<u>\$ 747,387</u>
<b>Total Corporation for National and Community Service (See Note 1)</b>		
<b>Social Security Administration</b>		
Disability Insurance/SSI Cluster:		
Social Security - Disability Insurance	96.001	\$ 5,895,744
		<u>\$ 5,895,744</u>
<b>Total Social Security Administration (See Note 1)</b>		

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2001

Federal Grantor Program Title	CFDA Number	Total Expenditures
<b>Research and Development Cluster:</b>		
<b>U.S. Department of Agriculture</b>		
Agricultural Research - Basic and Applied Research	10.001	\$ 36,674
Plant and Animal Disease, Pest Control, and Animal Care	10.025	21,947
Grants for Agricultural Research, Special Research Grants	10.200	149,069
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,604,943
Grants for Agricultural Research - Competitive Research Grants	10.206	493,714
Sustainable Agriculture Research and Education	10.215	845
Higher Education Challenge Grant	10.217	54,745
Buildings and Facilities Program	10.218	3,532,609
Higher Education Multicultural Scholars Program	10.220	22,500
Fund For Rural American - Research, Education, and Extension Activities	10.224	186,127
Integrated Programs	10.303	278,062
Cooperative Extension Service	10.500	179,646
Forestry Research	10.652	4,774
Soil and Water Conservation	10.902	(678)
Other Research and Development	N/A	105,322
<b>U.S. Department of Commerce</b>		
Census Intergovernmental Services	11.004	21,652
Economic Development - Public Works Impact Program	11.304	314,999
Sea Grant Support	11.417	2,672,540
Coastal Zone Management Administration Awards	11.419	142,656
Coastal Zone Management Estuarine Research Reserves	11.420	61,329
Fisheries Development and Utilization Research and Development Grants		
Cooperative Agreements Program	11.427	111,420
Climate and Atmospheric Research	11.431	187,934
Office of Oceanic and Atmospheric Research Joint and Cooperative Institutes	11.432	18
Marine Fisheries Initiative	11.433	1,271
Cooperative Science and Education Program	11.455	583,169
Special Oceanic and Atmospheric Projects	11.460	9,705
Habitat Conservation	11.463	11,812
Unallied Science Center	11.472	25,295
Coastal Services Center	11.473	100,090
Coastal Ocean Program	11.478	155,483
Other Research and Development	N/A	26,878
<b>U.S. Department of Defense</b>		
State Memorandum of Agreement Program for the Reimbursement of		
Basic and Applied Scientific Research	12.300	6,204,556
Basic Scientific Research	12.431	89,448
Air Force Defense Research Sciences Program	12.800	215,866
Other Research and Development	N/A	172,222
<b>U.S. Department of Housing and Urban Development</b>		
Community Development Block Grants/Entitlement Grants	14.218	(1,645)
Community Development Block Grants/ Small Cities Program	14.219	19,635
Community Outreach Partnership Center Program	14.511	116,984
Community Development Work-Study Program	14.512	23,537
Resident Opportunity and Supportive Services	14.870	37,852

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

## STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Fiscal Year Ended June 30, 2001

<b>Federal Grantor</b> Program Title	CFDA Number	Total Expenditures
<b>U.S. Department of Interior</b>		
Fish and Wildlife Management Assistance	15.608	27,426
Assistance to State Water Resources Research Institutes	15.805	76,516
U.S. Geological Survey - Research and Data Acquisition	15.808	166,034
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	42,606
National Cooperative Geologic Mapping Program	15.810	15,764
Outdoor Recreation - Acquisition, Development and Planning	15.916	1,445
Other Research and Development	N/A	459,664
<b>U.S. Department of Justice</b>		
Grants to Reduce Violent Crime Against Women on Campus	16.525	63,034
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	(252)
Drug-Free Communities Support Program Grants	16.729	34,662
<b>U.S. Department of Labor</b>		
Welfare and Pension Plan Reports	17.150	34
<b>U.S. Department of State</b>		
Program for Study of Eastern Europe and the Independent States of the Former Soviet Union	19.300	(17)
Other Research and Development	N/A	4,946,059
<b>U.S. Department of Transportation</b>		
Aviation Research Grants	20.108	69,319
Highway Planning and Construction	20.205	40,015
University Transportation Centers Program	20.701	1,803,767
<b>U.S. Department of Treasury</b>		
Other Research and Development	21.000	(123)
<b>Federal Mediation Conciliation Service</b>		
Labor Management Cooperation	34.002	5,330
<b>National Aeronautics and Space Administration</b>		
Aerospace Education Services Program	43.001	690,328
Technology Transfer	43.002	893,145
<b>National Credit Union Administration</b>		
Credit Union Charter, Examination, Supervision and Insurance	44.001	167,453
<b>National Foundation on the Arts and the Humanities</b>		
Promotion of the Humanities - Public Programs	45.164	5,452
Institute of Museum and Library Services - National Leadership Grants	45.312	101,464
<b>National Science Foundation</b>		
Engineering Grants	47.041	954,179
Mathematical and Physical Sciences and Engineering	47.049	565,734
Geosciences	47.050	5,766,380
Computer and Information Science and Engineering	47.070	457,636
Biological Science	47.074	65,194
Social, Behavioral, and Economic Sciences	47.075	60,654
Education and Human Resources	47.076	640,620
Other Research and Development	N/A	308,269
<b>U.S. Department of Veterans Affairs</b>		
Other Research and Development	N/A	2,950
<b>Environmental Protection Agency</b>		
National Estuary Program	66.456	26,708

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2001

Federal Grantor Program Title	CFDA Number	Total Expenditures
Wetlands Protection - Development Grants	66.461	95,814
Environmental Protection - Consolidated Research	66.500	119,004
Environmental Protection - Consolidated Grants - Program Support	66.600	20,705
Surveys, Studies, Investigations and Special Purpose Grants	66.606	78,126
Training and Fellowships for the Environmental Protection Agency	66.607	153,146
Pollution Prevention Grants Program	66.708	67,388
Environmental Education Grants	66.951	4,132
Other Research and Development	N/A	53,576
<b>U.S. Department of Energy</b>		
Office of Science Financial Assistance Program	81.049	189,887
<b>U.S. Information Agency</b>		
Education Exchange - Graduate Students	82.001	58,403
<b>U.S. Department of Health and Human Services</b>		
Biological Response to Environmental	93.113	214,563
Grants to Increase Organ Donations	93.134	338,174
Community Prevention Coalitions (Partnership) Demonstration Grant	93.194	(1,363)
Mental Health Research Grants	93.242	2,818
Occupational Safety and Health Research Grants	93.262	17,198
Alcohol Research Programs	93.273	718,738
Drug Abuse Research Program	93.279	34,684
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	447,141
Nurse Practitioner and Nurse-Midwifery Education Programs	93.298	343,227
Professional Nurse Traineeships	93.358	61,968
Nursing Research	93.361	215,115
Cancer Cause and Prevention Research	93.393	1,410,508
Cancer Detection and Diagnosis Research	93.394	395,725
Cancer Treatment Research	93.395	129,570
Cancer Control	93.399	(28,074)
Head Start	93.600	24,556
Heart and Vascular Diseases Research	93.837	179,137
Diabetes, Endocrinology and Metabolism Research	93.847	3,720
Allergy, Immunology and Transplantation Research	93.855	59,045
Microbiology and Infectious Disease Research	93.856	346,769
Pharmacology, Physiology, and Biological Chemistry Research	93.859	258,662
Population Research	93.864	72,566
Aging Research	93.866	599,028
Rural Health Medical Education Demonstration Projects	93.906	68,867
HIV Prevention Activities - Health Department Based	93.940	(2,463)
Grants for Geriatric Education Centers	93.969	242,681
<b>Total Research and Development Cluster (See Note 1)</b>		\$ 44,425,195
Other Expenditures of Federal Awards		\$ 2,831,863
<b>Total Expenditures of Federal Awards (See Notes 1 and 2)</b>		\$ 1,889,068,084

*See Accompanying Notes to the Schedule of Expenditures of Federal Awards*

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Fiscal Year Ended June 30, 2001

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the State of Rhode Island and Providence Plantations (the State). The reporting entity is defined in the Notes to the General-Purpose Financial Statements which are presented in section A of this report (see Note 1 to the general-purpose financial statements – Summary of Significant Accounting Policies – B. Reporting Entity).

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

Programs are generally listed in CFDA number order by federal funding agency. When no CFDA number has been assigned by the federal government, “None” is indicated in the schedule. When the CFDA number is not available from the State or component unit’s accounting records then N/A for not available is indicated in the schedule. The Research and Development (R&D) Cluster is presented at the end of the schedule because there are multiple federal funding agencies. As a result, total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs.

Cash assistance is presented using the same basis of accounting as that used in reporting the expenditures (or expenses) of the related funds and component units in the State’s general-purpose financial statements (see Note 1 to the general purpose financial statements – Summary of Significant Accounting Policies – D. Basis of Accounting). Medical Assistance Program expenditures are reported net of the applicable federal share of rebates collected during fiscal year 2001 (see Note 4).

Non-cash expenditures of federal awards are presented as follows:

- Food Distribution (CFDA 10.550) – reported at the fair market value of food distributed.
- The following guaranteed/insured mortgage loan programs are reported at the value of loans disbursed during the fiscal year: Very Low to Moderate Income Housing Loans (CFDA 10.410); Mortgage Insurance-Homes (CFDA 14.117); Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures (CFDA 14.142); and Veterans Housing - Guaranteed and Insured Loans (CFDA 64.114).

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Fiscal Year Ended June 30, 2001

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation (continued)**

- Home Equity Conversion Mortgages (CFDA 14.183) – reported at the balance of loans outstanding at June 30, 2001.
- Donation of Federal Surplus Personal Property (CFDA 39.003) – reported at the fair market value of the donated property at the time of receipt.
- Federal Family Education Loans (CFDA 84.032) - reported at the value of loans made during the fiscal year.
- Federal Perkins Loan Program – Federal Capital Contribution (CFDA 84. 038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) - reported at the balance of loans outstanding at June 30, 2001.

**NOTE 2. NON-CASH ASSISTANCE**

<u>CFDA Number</u>	<u>Loan, Loan Guarantee and Insurance Programs</u>	<u>Expenditures of Federal Awards - Year Ended June 30, 2001</u>	<u>Insurance, Loans and Loan Guarantees Outstanding - June 30, 2001</u>
10.410	Very Low to Moderate Income - Housing Loans	\$ 1,166,844	\$ 25,301,212
14.117	Mortgage Insurance – Homes	37,081,796	314,393,327
14.142	Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures	245,245	1,975,954
14.183	Home Equity Conversion Mortgages	21,661,736	21,661,736
64.114	Veterans Housing – Guaranteed and Insured Loans	3,159,046	39,352,864
84.032	Federal Family Education Loans	62,877,602	
84.032	Federal Family Education Loans (Guaranty Agency)	(a)	968,433,609
84.038	Federal Perkins Loan Program – Federal Capital Contribution	13,552,224	13,552,224
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,487,108	1,487,108
93.364	Nursing Student Loans	1,060,425	1,060,425
	<u>Other Non-Cash Assistance</u>		
10.550	Food Distribution	3,110,888	
39.003	Donation of Federal Surplus Personal Property	566,503	
	Total Non-Cash Assistance	<u>\$ 145,969,417</u>	

(a) Administrative cost allowances (cash assistance) totaling \$2,687,026 are reported in the schedule, however, for the purpose of determining federal awards expended in accordance with OMB Circular A-133 loan guarantees outstanding are added to the cash assistance amount for the FFEL (Guaranty Agency) Program – CFDA 84.032.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Fiscal Year Ended June 30, 2001

**NOTE 3. FEDERAL AWARDS RECEIVED FROM PASS-THROUGH ENTITIES**

The majority of expenditures of federal awards reflected in the schedule are from awards made directly by the federal government to the State and its component units. An immaterial amount of funds have been passed-through from other entities to component units of the State totaling approximately \$4.4 million. Of this amount, \$2.9 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. Of the remaining amount (\$1.5 million), approximately \$900,000 is unidentified as to either the CFDA number and/or the pass-through entity.

**NOTE 4. REBATES OF PROGRAM EXPENDITURES**

The State received the following program expenditure rebates during fiscal 2001:

<u>Program</u>	<u>CFDA Number</u>	<u>Rebate Amount</u>
Medical Assistance Program	93.778	\$ 21,251,297
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$ 4,088,887

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance) which had been purchased by program participants made the rebates. The Medical Assistance Program rebates reduced previously- incurred program expenditures.

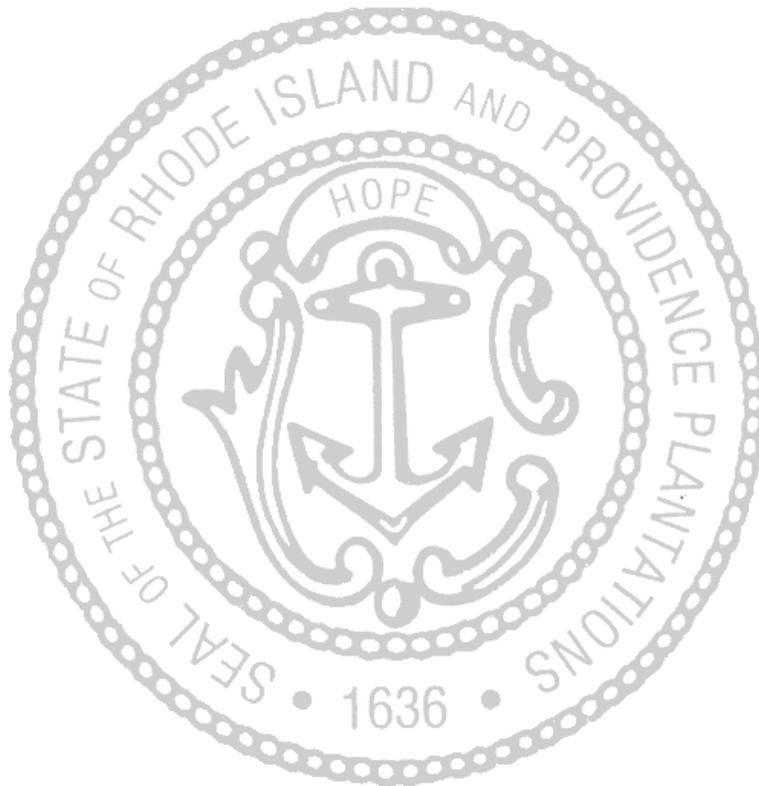
**NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES**

Expenditures of federal awards for Unemployment Insurance (CFDA Number 17.225) represent \$147,966,259 funded from the State's account in the federal Unemployment Trust Fund and \$16,908,716 funded by federal grants.

**NOTE 6. STUDENT FINANCIAL ASSISTANCE CLUSTER**

Expenditures for the Student Financial Assistance Cluster are listed under two separate departments, Department of Education and Department of Health and Human Services. The total expenditures for the cluster are \$ 96,064,333.

## Auditor's Reports



**Auditor's Reports**

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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly,  
State of Rhode Island and Providence Plantations:

We have audited the general-purpose financial statements of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 15, 2002. Our report was qualified because of the omission of the general fixed assets account group which should be included in order to conform with accounting principles generally accepted in the United States of America. Our opinion expressed therein, insofar as it relates to component units whose financial statements were audited by other auditors, was based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The reports of other auditors who audited the component units' compliance with laws, regulations, contracts and grants in accordance with *Government Auditing Standards* were furnished to us and this report, insofar as it relates to these component units, was based solely on the reports of the other auditors.

The results of our tests and the reports of the other auditors disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we will report to management of the State in a separate communication. Other auditors also noted certain immaterial instances of noncompliance that they have communicated to management of the component units.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. The reports of the other auditors on the internal control over financial reporting of component units in accordance with *Government Auditing Standards* were furnished to us and this report, insofar as it relates to these component units, was based solely on the reports of the other auditors.

We noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 2001-1, 2001-2, 2001-3, 2001-4, 2001-5, 2001-6 and 2001-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting and the reports of the other auditors would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 2001-1, 2001-2, and 2001-7 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that we will report to management of the State in a separate communication. Other auditors also noted other matters involving the internal control over financial reporting that they have communicated to management of the component units.

This report is intended solely for the information and use of the Finance Committee of the House of Representatives, the Joint Committee on Legislative Services, the Governor and management of the State, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Ernest A. Almonte".

Ernest A. Almonte, CPA, CFE  
Auditor General

February 15, 2002



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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly,  
State of Rhode Island and Providence Plantations:

### Compliance

We have audited, except as described in the next three sentences, the compliance of the State of Rhode Island and Providence Plantations (the State) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. We did not audit the compliance of component units administering major federal programs with the requirements described in the preceding sentence. These major federal programs had combined expenditures of federal awards representing 16% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2001. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs administered by these component units were furnished to us, and this report insofar as it relates to the component units that were audited by other auditors, is based solely on the reports of the other auditors. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other

procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State with the Food Stamp Cluster, Unemployment Insurance, Trade Adjustment Assistance-Workers, Workforce Investment Act, Rehabilitation Services – Vocational Rehabilitation Grants to States, Child Support Enforcement, and the Disability Insurance/SSI Cluster programs regarding the equipment and real property management requirement, nor were we able to satisfy ourselves as to the State's compliance with this requirement by other auditing procedures.

As described in Finding 2001-28 in the accompanying schedule of findings and questioned costs, the State (through its component unit - Rhode Island Higher Education Assistance Authority) did not comply with special requirements regarding collection activities on defaulted loans that are applicable to its Federal Family Education Loans (Guarantee Agency) program. Compliance with this requirement is necessary, in the opinion of the auditor of the component unit, for the State to comply with the requirements applicable to that program.

As described in Finding 2001-50 in the accompanying schedule of findings and questioned costs, the State did not comply with the eligibility requirement that is applicable to the State Children's Insurance Program. Compliance with this requirement is necessary, in our opinion for the State to comply with the requirements applicable to that program.

In our opinion, based on the results of our audit and the reports of the other auditors, and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the requirements of the Food Stamp Cluster, Unemployment Insurance, Trade Adjustment Assistance-Workers, Workforce Investment Act, Rehabilitation Services – Vocational Rehabilitation Grants to States, Child Support Enforcement, and the Disability Insurance/SSI Cluster programs regarding the equipment and real property management requirement, and except for the noncompliance described in the two preceding paragraphs, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2001. The results of our auditing procedures and the reports of the other auditors also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2001-15, 2001-16, 2001-18, 2001-20, 2001-21, 2001-25, 2001-29, 2001-30, 2001-31, 2001-32, 2001-40, 2001-47 and 2001-63.

#### Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect

on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133. Other auditors have audited certain major federal programs administered by component units which had combined expenditures of federal awards representing 16% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2001. The other auditors have furnished us their reports on their consideration and testing of the component units' internal control over compliance with requirements that could have a direct and material effect on a major federal program.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. The other auditors also noted certain matters involving the component units' internal control over compliance and its operation that they consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2001-8, 2001-9, 2001-10, 2001-11, 2001-12, 2001-13, 2001-14, 2001-17, 2001-19, 2001-22, 2001-23, 2001-24, 2001-26, 2001-27, 2001-33, 2001-34, 2001-35, 2001-36, 2001-37, 2001-38, 2001-39, 2001-41, 2001-42, 2001-43, 2001-44, 2001-45, 2001-46, 2001-48, 2001-49, 2001-50, 2001-51, 2001-52, 2001-53, 2001-54, 2001-55, 2001-56, 2001-57, 2001-58, 2001-59, 2001-60, 2001-61 and 2001-62.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration, and the other auditors' consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider, based on our auditing procedures and the reports of other auditors, Findings 2001-8, 2001-50 and 2001-54 to be material weaknesses.

This report is intended solely for the information and use of the Finance Committee of the House of Representatives, the Joint Committee on Legislative Services, the Governor and management of the State, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ernest A. Almonte, CPA, CFE  
Auditor General

February 15, 2002

**Schedule of Findings  
and Questioned Costs**



Schedule of Findings and  
Questioned Costs

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section I – Summary of Auditor’s Results

---

**General-Purpose Financial Statements**

- 1) The independent auditor’s report on the general-purpose financial statements expressed a qualified opinion.
- 2) The audit of the general-purpose financial statements disclosed reportable conditions and material weaknesses in internal control over financial reporting.
- 3) The audit disclosed no instances of noncompliance which are material to the general-purpose financial statements.

**Federal Awards**

- 4) The audit disclosed reportable conditions in internal control over major programs, some of which were classified as material weaknesses.
- 5) The independent auditor’s report on compliance for major programs expressed an unqualified opinion for all major programs except for the following programs in which it expressed a qualified opinion:

<b><u>Program</u></b>	<b><u>CFDA #</u></b>
Food Stamp Cluster:	
Food Stamps	10.551
State Administrative Matching Grants for Food Stamp Program	10.561
Unemployment Insurance	17.225
Trade Adjustment Assistance – Workers	17.245
Workforce Investment Act	17.255
Federal Family Education Loans (Guaranty Agency)	84.032
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
Child Support Enforcement	93.563
State Children’s Insurance Program	93.767
Disability Insurance/SSI Cluster:	
Social Security – Disability Insurance	96.001

- 6) The audit disclosed findings that must be reported under OMB Circular A-133 provisions.
- 7) Major programs are listed beginning on the next page.
- 8) The dollar threshold used to distinguish between Type A and Type B programs was \$5,667,204.
- 9) The State did not qualify as a low-risk auditee as defined by OMB Circular A-133.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section I – Summary of Auditor’s Results

---

**Major Programs**

<b><u>Program Title</u></b>	<b><u>CFDA Number</u></b>
Food Stamp Cluster:	
Food Stamps	10.551
State Administrative Matching Grants for Food Stamp Program	10.561
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
Special Supplemental Nutrition Program for Women, Infants and Children	10.557
Mortgage Insurance – Homes	14.117
Section 8 Project Based Cluster:	
Section 8 New Construction and Substantial Rehabilitation	14.182
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856
Community Development Block Grants / State’s Program	14.228
Unemployment Insurance	17.225
Trade Adjustment Assistance – Workers	17.245
Workforce Investment Act	17.255
Airport Improvement Program	20.106
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
Highway Safety Cluster	
State and Community Highway Safety	20.600
Capitalization Grants for State Revolving Funds	66.458
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Family Education Loans	84.032
Federal Work-Study Program	84.033
Federal Perkins Loan Program – Federal Capital Contributions	84.038

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Section I – Summary of Auditor’s Results

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**Major Programs (cont’d)**

<b><u>Program Title</u></b>	<b><u>CFDA Number</u></b>
Student Financial Assistance Cluster: continued	
Federal Pell Grant Program	84.063
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364
Title I Grants to Local Educational Agencies	84.010
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Federal Family Education Loans (Guaranty Agency)	84.032
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
Class Size Reduction	84.340
Temporary Assistance for Needy Families	93.558
Child Support Enforcement	93.563
Low-Income Home Energy Assistance	93.568
Community Services Block Grant	93.569
Child Care Cluster:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596
Foster Care – Title IV-E	93.658
Social Services Block Grant	93.667
State Children’s Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers	93.777
Medical Assistance Program	93.778
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Disability Insurance/SSI Cluster:	
Social Security – Disability Insurance	96.001
Research and Development Cluster	Various

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statement Findings

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**Finding 2001-1**

GENERAL FIXED ASSETS ACCOUNT GROUP

The State has not accumulated historical information concerning the cost and classification of its investment in fixed assets. This information is required by generally accepted accounting principles to be presented in the General-Purpose Financial Statements by inclusion of a General Fixed Assets Account Group. Due to the omission of the General Fixed Assets Account Group, we qualified our opinion on the State's general-purpose financial statements.

A statewide fixed asset inventory system is needed to provide adequate controls over the State's substantial investment in fixed assets and to prepare financial statements in conformance with generally accepted accounting principles. Further, Office of Management and Budget (OMB) Circular A-102 requires States to use, manage, and dispose of equipment acquired with federal funds in accordance with state laws and procedures. The State's lack of adequate fixed asset inventory records impacted its ability to identify equipment purchased with federal funds and to ensure compliance with its own procedures regarding the use, management and disposition of all equipment.

Policies and procedures have been developed and the process to inventory and accumulate fixed asset information was underway during fiscal 2001. The State should continue its efforts to accumulate and record the cost of all new fixed assets purchased and inventory and assign a value to all other assets.

RECOMMENDATION

2001-1            Continue to implement systems and procedures necessary to accumulate and record the information needed to prepare financial statements in accordance with generally accepted accounting principles.

**Finding 2001-2**

CONTROL OVER LONG TERM OBLIGATIONS

The State lacks adequate accounting controls to accumulate all long-term obligations for inclusion in the General Long Term Debt Account Group within the general-purpose financial statements. Controls are also inadequate to ensure all required payments are made when due.

The State's debt service accounting system includes only information for certain general obligation bonds (current-interest bonds), representing approximately one-half of the total obligations reported in the General Long-Term Debt Account Group. Obligations not recorded

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statement Findings

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in the debt service accounting system include capital appreciation bonds, multi-modal rate bonds, lease obligations, certificates of participation, compensated absences, and arbitrage rebate liabilities. The debt service accounting system is incapable of accepting data for certain categories of long-term obligations and consequently these obligations are recorded on a variety of independent subsystems without centralized control.

A new subsidiary accounting system is required to capture all categories of long-term obligations, detail all debt service requirements to maturity and prompt payments on the required dates. This subsidiary accounting system should be capable of interfacing with the new statewide accounting system implemented July 1, 2001. This will provide information necessary for financial reporting purposes, and generally improve control over the State's long-term obligations.

### RECOMMENDATION

- 2001-2      Acquire a new subsidiary accounting system to account for all long-term general obligations of the State and improve controls over financial reporting and debt service payments.

### **Finding 2001-3**

#### PASSWORD ACCESS CONTROLS OVER THE STATE ACCOUNTING SYSTEM

The Government On-Line Data Entry Network (GOLDEN) component of the State accounting system is used to process disbursements to vendors and record receipts. The GOLDEN system allows data entry of vendor payment information at the agency level rather than at the Office of Accounts and Control.

We found the GOLDEN system lacks adequate controls to ensure that user access is necessary, appropriate to their duties, and sufficiently restricted. These controls are important to maintaining adequate security of any computer system application. We found the following instances of individuals with inappropriate system access.

- Certain computer programmers in the Office of Library and Information Services have access to the GOLDEN system which provides them with the ability to prepare and approve disbursements as well as prepare and approve receipt vouchers. Programmers should not have continued access to the system once it is placed in production but instead should only have access to a test system where system modifications are designed and tested before production.

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section II – Financial Statement Findings

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- ❑ Certain accounting personnel in the Office of Accounts and Control have access allowing them to both initiate and approve vouchers for payment.

Segregation of duties is maintained in the State accounting system by requiring agencies to prepare vouchers on-line but submit a signed and authorized hard-copy voucher, along with supporting documentation, to the pre-audit section within the Office of Accounts and Control. The pre-audit section reviews the voucher and supporting documentation, checks for appropriate authorized signature and approves vouchers for payment. Segregating voucher preparation from the pre-audit approval function is a key internal control in the State accounting system. No individual should have the ability to both initiate and approve the same transactions within the accounting system.

These control weaknesses existed during fiscal 2001, however, new control procedures are operational with the implementation of new statewide accounting system on July 1, 2001.

### **Finding 2001-4**

#### PASSWORD ACCESS CONTROLS OVER THE PAYROLL ACCOUNTING SYSTEM

Payroll data for the majority of State employees is entered on-line to the payroll accounting system at the department or agency level.

We reviewed the controls over data entry for the State payroll accounting system and found that established procedures do not mandate the assignment of unique passwords for each user to control and restrict access to the system. Computer work stations used to enter payroll data at some larger State agencies were not in secure locations. Further, the existing password control system does not record password information within the data files to identify individuals making specific file changes thereby providing a clear audit trail.

System access controls need to be improved by requiring each user to have a unique password and by utilizing the password to track all transactions initiated by an individual user.

#### RECOMMENDATIONS

- 2001-4a      Require that each individual have a unique password to appropriately restrict access to the system.
- 2001-4b      Capture and maintain the employee's unique password within the transaction file to specifically identify transactions by individual user.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statement Findings

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**Finding 2001-5**

DISASTER RECOVERY PLAN

The Office of Library and Information Services (OLIS) does not have a formal written disaster recovery/business resumption plan for all computer applications utilizing the State Data Center located in Johnston, as well as its operations located at One Capitol Hill in Providence. Key computer applications utilizing the State Data Center include the State's centralized accounting, tax collection, employee payroll, and pension payroll systems. Such a plan should be designed to allow the continuation of essential data processing and support functions in the event existing data processing facilities are destroyed, impaired or unavailable. Without a formal plan, the State's ability to re-establish key computer applications in a timely manner may be compromised.

RECOMMENDATION

2001-5            Develop a formal written disaster recovery/business resumption plan for the State Data Center and operations at One Capitol Hill.

**Finding 2001-6**

FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT (ISTEA) FUND

Controls are not adequate to ensure that Intermodal Surface Transportation Efficiency Act (ISTEA) Fund revenues and other financing sources are accurately and consistently identified and recorded to allow preparation of financial statements in accordance with generally accepted accounting principles.

The ISTEA Fund has been established as a special revenue fund to account for federal/state highway projects. Federal revenues, bond proceeds for highway projects, and amounts collected from the state gasoline tax are recorded in the fund.

During fiscal 2001, RIDOT improved controls by modifying the state accounting system to account for federal, state and third party shares of project expenditures in separate accounts, respectively. However, controls over amounts due from the federal government continue to require improvement. Amounts due from the federal government for the Highway Planning and Construction Program represent the federal share of program expenditures incurred pending federal reimbursement. These amounts include not only current projects but also substantial amounts relating to prior projects. Amounts due for prior projects are principally categorized by

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section II – Financial Statement Findings

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RIDOT as “earned but unbilled”. This means that a valid receivable exists but funds have not been drawn either because project modifications are pending federal approval or because RIDOT has chosen to use its allocation of federal funds for new projects instead. The balance of “earned but unbilled” that remains uncollected rolls forward from one fiscal year to another. Based on previous history, these amounts will not be collected in total within the next fiscal year. Therefore, an allowance must be established for financial reporting purposes to estimate the amount that is unavailable (the amount that will not be collected within one fiscal year after the balance sheet date.)

“Earned but unbilled” amounts (which totaled \$12.6 million at June 30, 2001) are not controlled within the state accounting system but instead are reported at fiscal year end by RIDOT to the Office of Accounts and Control. Of the \$12.6 million, \$7.6 million is estimated as likely to be collected within the next year, and \$5 million is considered unavailable.

The existence of substantial “earned but unbilled” amounts and the current process to account for these amounts weakens overall control over financial reporting for the ISTEA Fund. Federal funds should be drawn for all amounts due from the federal government as soon as all federal requirements have been met (e.g. federal project approval). Failure to collect these amounts due from the federal government for extended periods of time puts the State at a substantial disadvantage.

#### RECOMMENDATION

2001-6a      Collect all amounts due from the federal government in reimbursement of highway project expenditures as soon as all federal requirements have been met.

The ISTEA Fund also accounts for federal revenues and expenditures related to certain other federal programs. These programs include the Federal Transit Cluster, State and Community Highway Safety Cluster and other smaller programs. However, the amount of expenditures by federal funding source is either not identified or is incorrectly identified in the State accounting system (e.g., appropriation accounts are not linked to the correct Catalog of Federal Domestic Assistance (CFDA) number). As a result, amounts reported in the financial statements by federal program could be materially misstated.

#### RECOMMENDATION

2001-6b      Modify appropriation accounts used for federal expenditures within the State accounting system, so that each account correctly identifies the federal funding source, i.e., CFDA number. Discontinue linking an appropriation account to more than one CFDA number.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section II – Financial Statement Findings

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**Finding 2001-7**

FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 2001-54 (Section III – Federal Award Findings and Questioned Costs), the Department of Human Services' oversight of its fiscal agent designated to pay Medical Assistance program claims was not adequate to assure the reliability of data reported by the Medicaid Management Information System (MMIS). Financial monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section III – Federal Award Findings and Questioned Costs

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**TABLE OF FINDINGS BY FEDERAL PROGRAM**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Applicable Findings</u>
Food Distribution	10.550	01-10
Food Stamp Cluster:		
Food Stamps	10.551	01-11, 01-12
State Administrative Matching Grants for Food Stamp Program	10.561	01-08, 01-9
Child Nutrition Cluster:		
School Breakfast Program	10.553	01-9, 01-10, 01-13, 01-14
National School Lunch Program	10.555	01-9, 01-10, 01-13, 01-14
Special Milk Program for Children	10.556	01-9, 01-13, 01-14
Summer Food Service Program for Children	10.559	01-9, 01-10
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	01-9
Mortgage Insurance – Homes	14.117	None Reported
Section 8 Project Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	01-15, 01-16
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	None Reported
Community Development Block Grants / State’s Program	14.228	01-9, 01-17, 01-18, 01-19
Unemployment Insurance	17.225	01-8, 01-9, 01-20, 01-21
Trade Adjustment Assistance – Workers	17.245	01-8, 01-9, 01-22
Workforce Investment Act	17.255	01-8, 01-9, 01-23, 01-24
Airport Improvement Program	20.106	None Reported
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	01-9, 01-25
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	01-9
Federal Transit – Formula Grants	20.507	01-9
Highway Safety Cluster		
State and Community Highway Safety	20.600	01-9, 01-26
Capitalization Grants for State Revolving Funds	66.458	None Reported
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	01-29
Federal Family Education Loans	84.032	01-29, 01-30, 01-31
Federal Work-Study Program	84.033	01-29, 01-31
Federal Perkins Loan Program – Federal Capital Contributions	84.038	01-29, 01-32

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
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**TABLE OF FINDINGS BY FEDERAL PROGRAM (continued)**

<b><u>Program Title</u></b>	<b><u>CFDA Number</u></b>	<b><u>Applicable Findings</u></b>
Student Financial Assistance Cluster: continued		
Federal Pell Grant Program	84.063	01-29, 01-33
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	None Reported
Nursing Student Loans	93.364	None Reported
Title I Grants to Local Educational Agencies	84.010	01-9, 01-27
Special Education Cluster:		
Special Education – Grants to States	84.027	01-9, 01-27
Special Education – Preschool Grants	84.173	01-9, 01-27
Federal Family Education Loans (Guaranty Agency)	84.032	01-28
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	01-8, 01-9, 01-34
Class Size Reduction	84.340	01-9, 01-27, 01-35
Temporary Assistance for Needy Families	93.558	01-9, 01-12, 01-36, 01-37
Child Support Enforcement	93.563	01-8, 01-9, 01-38, 01-39, 01-40
Low-Income Home Energy Assistance	93.568	01-9, 01-41, 01-42, 01-43
Community Services Block Grant	93.569	01-9, 01-44, 01-45
Child Care Cluster:		
Child Care and Development Block Grant	93.575	01-9, 01-44, 01-46
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	01-9, 01-46
Foster Care – Title IV-E	93.658	01-9, 01-47, 01-48
Social Services Block Grant	93.667	01-9, 01-45, 01-49
State Children’s Insurance Program	93.767	01-9, 01-50, 01-51
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	01-9, 01-52
State Survey and Certification of Health Care Providers and Suppliers	93.777	01-9
Medical Assistance Program	93.778	01-9, 01-49, 01-51, 01-52, 01-53, 01-54, 01-55, 01-56, 01-57, 01-58, 01-59, 01-60
Block Grants for Prevention and Treatment of Substance Abuse	93.959	01-9, 01-61, 01-62
Disability Insurance/SSI Cluster:		
Social Security – Disability Insurance	96.001	01-8, 01-9
Research and Development Cluster	Various	01-63

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Section III – Federal Award Findings and Questioned Costs

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**Finding 2001-8**

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2001–1 (Section II – Financial Statement Findings), the State lacked statewide systems and procedures to adequately control its substantial investment in fixed assets and to prepare its financial statements in conformance with generally accepted accounting principles. This impacted its ability to identify equipment purchased with federal funds and to ensure compliance with its own procedures regarding the use, management and disposition of all equipment.

Because of the lack of a statewide inventory system and related controls over fixed assets, we were unable to test the State’s compliance with the equipment management requirement. In most instances, individual departments or agencies vested with responsibility for administering federal programs also lacked controls to ensure compliance with these requirements.

Questioned Costs: None

**Finding 2001-9**

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

CASH MANAGEMENT

The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.

The State is required to draw cash for federal programs in accordance with the federal Cash Management Improvement Act (Act) and related regulations at 31 CFR Part 205. For most larger federal programs, the State is required to follow the specific provisions of an agreement entered into by the State and the US Treasury pursuant to the Act and related regulations. In the event the State does not comply with the provisions of the Treasury/State agreement in drawing cash for federal programs, it must pay interest for the period the funds were on hand prior to disbursement. For federal programs not included in the agreement, the State is required to minimize the time elapsing between the transfer of funds from the US Treasury and their disbursement, generally considered to be no more than a three-day supply of cash on hand.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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The State developed the Cash Management System (CMS) as part of the State accounting system to provide information enabling its departments and agencies to draw federal funds in compliance with the Treasury/State agreement. Of the 22 programs we tested as major programs that are subject to the Treasury/State agreement, eleven programs did not consistently adhere to the techniques specified in the agreement to draw federal cash. In those instances where the techniques specified in the agreement were not consistently followed, funds were generally drawn later than permitted.

Each department is responsible for drawing federal funds for the programs it manages. The State does not have procedures to centrally administer or monitor compliance with federal cash management requirements.

We believe responsibility for drawing federal funds should be vested in the Office of the General Treasurer where compliance with cash management for federal programs should be integrated with other cash management objectives. In instances where funds are now drawn less frequently than permitted, compliance with the agreement will enhance the State's cash management. Further, overall compliance with the agreement will minimize or eliminate any State interest liability payable to the federal government.

Questioned Costs: None

#### RECOMMENDATION

2001-9      Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.

### **Finding 2001-10**

FOOD DISTRIBUTION – CFDA 10.550

Administered by: Department of Corrections – State Warehouse

CHILD NUTRITION CLUSTER:

    School Breakfast Program – CFDA 10.553

    National School Lunch Program – CFDA 10.555

    Summer Food Service Program for Children – CFDA 10.559

Administered by: Rhode Island Department of Education (RIDE)

#### INVENTORY OF DONATED FOOD COMMODITIES

Under the Food Distribution grant (CFDA# 10.550), the USDA makes agricultural commodities available for use in the operation of all child nutrition programs except the Special

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Milk Program for Children. The State's Warehouse operated by the Department of Corrections is responsible for receiving, storing, and distributing these commodities. We found that inventory record keeping and controls over the receipt and distribution of food commodities should be improved.

Warehouse personnel maintain perpetual inventory records based upon goods received, shipped, or damaged. The inventory records listed 86 items that were eligible for use by the Child Nutrition Cluster of federal programs. At June 30, 2001, the inventory balances of twenty-five items were adjusted to agree with the physical inventory counts. The adjustments ranged from 1 case to 52 cases and included both decreases and increases to the recorded balances.

On February 13, 2002, we counted the quantity on hand for nine of the items. In eight instances, our counts did not agree with the inventory records. Our variances ranged from an overstatement of 116 cases to an understatement of 21 cases. During the physical count, we found that the same type of items were located in various areas of the warehouse which made it difficult to ensure all items were counted.

Questioned Costs: None

RECOMMENDATION

2001-10      Improve controls over the receipt and distribution of donated food commodities by ensuring that all required forms are completed and recorded in the inventory records when goods are received, shipped, or damaged and by storing all like items in one location.

**Finding 2001-11**

FOOD STAMP CLUSTER:

Food Stamps - CFDA 10.551

Administered by: Department of Human Services (DHS)

ELECTRONIC BENEFIT TRANSFER RECONCILIATION

Federal regulations (7 CFR 274.12(k)) require that states using Electronic Benefit Transfer (EBT) must conduct a reconciliation of benefits posted to household accounts on the central computer (the EBT contractor's system) against benefits on the issuance authorization file (the State's issuance files). During state fiscal year 2001 the Department indicated that its eligibility system contractor was performing this reconciliation, however, Department personnel did not review these reconciliations to ensure that discrepancies were appropriately resolved.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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The Department has initiated procedures in fiscal 2002 to reconcile benefits as authorized by its eligibility system to benefits transmitted and accepted by the EBT contractor.

This regulation also requires a reconciliation of total funds entered into, exiting from, and remaining in the EBT system each day. The Department's reconciliation procedures in place during state fiscal year 2001 consisted of comparing daily totals for EBT authorizations, clearings and cumulative balances as applicable between three sources of information. Department personnel compare on a daily basis:

1. authorizations as obtained from the EBT contractor's on-line reports to issuances as reflected in the Account Management Agency (AMA) system, and increases to the beginning balance in the Automated Standard Application for Payment (ASAP) system,
2. clearings from the EBT contractor's on-line reports to clearings as indicated in the ASAP system, and
3. a cumulative balance as computed from the EBT contractor's daily authorization and clearing totals to the ending balance reflected in the ASAP system.

The Department believes these procedures meet the reconciliation requirements as contained in Federal regulation cited above, however, in our opinion the Department's procedures do not fully address all aspects of the reconciliation of total funds entered into, exiting from, and remaining in the system each day.

The Federal Department of Agriculture's Food and Nutrition Service issued a document entitled *EBT Reconciliation Guidance for State Agencies* on August 25, 1999. The purpose of the document is to more explicitly define the EBT reconciliation requirements at 7 CFR 274.12, and to provide States "best practices" for complying with these requirements. The Department does not currently perform certain procedures, including the comparison of ASAP draws to net retailer credits, which are contained in the guidance and integral to the reconciliation process.

The auditee disagrees with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: None

#### RECOMMENDATION

2001-11      Strengthen procedures to fully reconcile total funds entering into, exiting from and remaining in the EBT system each day.

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**Finding 2001-12**

FOOD STAMPS - CFDA 10.551

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

Administered by: Department of Human Services (DHS)

CONTROLS OVER ELECTRONIC BENEFIT DELIVERY SYSTEM

Controls over the delivery of food stamps and Temporary Assistance to Needy Families (TANF) benefits are weakened because some individuals have access both to the Department's INRHODES eligibility system and Deluxe Data's Electronic Benefit Transfer (EBT) card personal identification number authorization system. Certain local office supervisory personnel can create cases and/or modify case information within the INRHODES system. These same individuals can generate an EBT card and establish a personal identification number. Neither the Department of Human Services nor its contractor Deluxe Data has a complete list of individuals with access to the EBT card personal identification number system.

DHS personnel both generate the EBT card and assist the recipient to establish a personal identification number using an on-line (Deluxe Data) system terminal and encoding machine. In order for recipients to establish their personal identification number, clerical or certain supervisory personnel from each local office log on to the Deluxe system by entering a two-digit user identification number and a four-digit confidential password. We were informed that to ensure security control over card issuances, only clerical personnel with limited access to the Department's INRHODES eligibility system have access to this function of the Deluxe system.

We requested a listing of the individuals with access to the Deluxe system from the Department's Operations Management section, the Field Services section and the EBT subcontractor. We were informed that neither DHS nor Deluxe maintains a complete listing of personnel authorized to access the Deluxe system and the personal identification number encoding equipment.

Department personnel have indicated that the responsibility for managing access to the Deluxe terminals and encoding equipment was assigned to local office supervisors, and that the Department has begun compiling a list of those individuals with access to the Deluxe system.

System access controls should include maintaining a current listing of authorized users and periodically analyzing the responsibilities of authorized users to ensure proper segregation of duties. System access controls are critically important in the EBT function since other controls to detect unauthorized and inappropriate access to the system are limited.

Questioned Costs: None

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RECOMMENDATIONS

- 2001-12a      Segregate responsibilities such that no individual has access to both initiate or modify case data within the Department's INRHODES system and the ability to generate EBT cards and establish personal identification numbers.
- 2001-12b      Determine and document all individuals with access to the Deluxe Data EBT card authorization system.

**Finding 2001-13**

CHILD NUTRITION CLUSTER

School Breakfast Program - CFDA 10.553

National School Lunch Program - CFDA 10.555

Special Milk Program for Children – CFDA 10.556

Administered by: Rhode Island Department of Education (RIDE)

USER ACCESS CONTROLS

RIDE implemented a new computer system during fiscal 2001 to administer the child nutrition programs. The Internet based system allows entry of data regarding the number and type of meals served, etc. at the sponsor and site level. We found that user access to the computer system was not adequately restricted and controlled as follows:

- ❑ At the sponsor and site level, user ID's and passwords are not unique to specific individuals. The combination of a single ID and password can be used by more than one system user.
- ❑ Multiple employees at RIDE have access to each of the sponsor's user ID's and passwords. This access was given because of numerous system implementation issues.

Because of these situations, specific accountability for transactions recorded and processed by the system is lost. The system should capture sufficient information about all user actions which would provide a management trail to support the ability to audit user activity. Specifically, each user should be assigned a unique password. Access to system information should be based upon individual responsibilities and functions and be controlled by unique user ID's and passwords.

We also found that the design of user access security should also be improved by implementing standard password security features such as:

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- ❑ require passwords to be changed on a scheduled basis (e.g., 30, 60, 90 days);
- ❑ disable user ID's and accounts automatically after a predetermined period of inactivity (e.g., 45, 60, 90 days);
- ❑ disconnect after a maximum number of unsuccessful logon attempts and require notification to the systems security administrator; and
- ❑ encrypt passwords and restrict obvious password combinations to prevent "brute force guessing".

RIDE should enhance its system security features to ensure the integrity of data reported and processed by the system and to protect the data from damage, alteration, wrongful disclosure, or fraudulent use. These controls are essential when the system, by design, is 'open' to various public access channels.

Questioned Costs: None

#### RECOMMENDATION

2001-13 Enhance system security features by (1) assigning all users unique passwords, (2) defining and controlling access to system data through user ID's and passwords, and (3) implementing standard password administration procedures.

### **Finding 2001-14**

#### CHILD NUTRITION CLUSTER

School Breakfast Program - CFDA 10.553

National School Lunch Program - CFDA 10.555

Special Milk Program for Children – CFDA 10.556

Administered by: Rhode Island Department of Education (RIDE)

#### REPORTING

RIDE implemented a new computer system during fiscal 2001 to administer the child nutrition programs. One intended function of the system is to meet the federal reporting requirements of the programs. During fiscal 2001, RIDE experienced various issues associated with either the design or implementation of the new system which resulted in weaknesses in the control procedures over federal reporting.

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Although the system was intended to provide data necessary to complete federal reports for the child nutrition programs, the system lacked the capability to fully meet this function. Cumulative data was not reported by the system and totals for the program as a whole (all sponsors and sites) was not provided. Because of the system limitations, alternate procedures, including manually summing the data, were employed. These manual procedures resulted in errors being made in some of the reported data on the federal reports. For example, approximately \$107,000 was overstated as School Breakfast program expenditures on the SF-269 report for the quarter ending June 30, 2001 and the meal count was overstated by 1300 meals on the FNS-10 report for the 90 day period ending November 30, 2000.

We also found that the system did not correctly calculate meal reimbursements for the Severe Need component of the School Breakfast Program. RIDE recognized this problem during the fiscal year and made adjustments on subsequent payments to adjust for the overpayments. At June 30, 2001 approximately \$5,400 remained as overpayments pending recoupment.

We also found that total expenditures reported on the federal reports exceeded expenditures reported in the State accounting system by approximately \$340,000. RIDE does not reconcile the expenditures reported until the final close-out federal report is prepared.

RIDE is aware of the system design and implementation problems that are affecting data reported by the new accounting system and has retained a consultant to assist in resolving the systems related issues.

Questioned Costs: None

RECOMMENDATIONS

- |          |   |
|----------|---|
| 2001-14a | Improve controls over federal reporting by resolving the computer system design and implementation deficiencies.          |
| 2001-14b | Reconcile expenditures included on quarterly federal reports (SF-269) to amounts included in the State accounting system. |

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**Finding 2001-15**

SECTION 8 – NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION –  
CFDA 14.182

Administered by: Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)

SAMPLING OF TENANT FILES – ANNUAL MANAGEMENT AND OCCUPANCY  
REVIEW

HUD requires that a sampling of files be examined during the annual management and occupancy review of developments. HUD has established specific guidelines relevant to the size of the development based generally on a percentage sampling methodology. However, a minimum of five tenant files must be examined no matter how small the development. In one case, Rockland Oaks, three tenant files were reviewed instead of the minimum of five.

Questioned costs: None

RECOMMENDATION

2001-15      The Corporation should ensure that individuals performing reviews are aware of the HUD requirements regarding the number of tenant files to review.

**Finding 2001-16**

SECTION 8 – NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION –  
CFDA 14.182

Administered by: Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)

FOLLOW-UP ON PHYSICAL INSPECTIONS

The Corporation is required to follow-up on REAC's physical inspections to ensure that owners/agents are complying with regulations. We noted that no follow-up procedures were followed.

Questioned costs: None

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RECOMMENDATION

2001-16      The Corporation should establish a process to follow-up on REAC's physical inspections in a timely manner.

**Finding 2001-17**

COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM – CFDA 14.228  
Administered by: Rhode Island Department of Administration

MATCHING

The Department did not monitor its compliance with the matching requirements of the Community Development Block Grant Program (CDBG). The Department may use up to \$100,000 of the federal grant for state administrative purposes. An additional two percent of the grant may be expended for administrative costs, provided such funds are matched from State resources on a one-to-one basis. In fiscal 2001, the Department expended \$264,681 for administrative costs.

Federal awards from several fiscal years were still available in fiscal 2001. The fiscal year grant award to which the administrative expenditures are charged ultimately affects the amount of required state matching expenditures. This amount was determined to be \$164,681 for fiscal 2001. The Department indicated that allowable State matching expenditures were made; however, no documentation was maintained to support the amount or nature of the expenditures used to match CDBG funds. Control procedures should be implemented to require calculation and documentation of eligible matching expenditures to ensure compliance with this requirement.

Questioned Costs: None

RECOMMENDATION

2001-17      Maintain documentation to support required State matching expenditures for administrative costs that exceed \$100,000.

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**Finding 2001-18**

COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM – CFDA 14.228  
Administered by: Rhode Island Department of Administration

QUESTIONED COST - PAYROLL COSTS

OMB Circular A-87 requires that the distribution of salary and fringe benefit costs to a program or activity be supported by personnel activity reports or equivalent documentation when employees work on multiple activities or cost objectives.

We question certain salary and fringe benefit costs charged to the CDBG program as follows:

- ❑ Salary and fringe benefit costs for one employee were charged entirely to the CDBG program for a portion of the fiscal year; however, weekly time sheets prepared by the employee indicated that time spent on the CDBG program approximated 50%. We estimate the amount overcharged at approximately \$13,500.
  
- ❑ A second employee worked on multiple activities but only prepared time sheets for the last three months of the fiscal year. Time sheets prepared for April 2001 through June 2001 indicated that the time spent on CDBG activities ranged from 27% to 47%. Seventy-five percent of the employee's salary was charged to the CDBG program. We estimate the amount of the overcharge at approximately \$15,000.

Questioned Costs: \$28,500

RECOMMENDATION

2001-18      Allocate employees' salaries and fringe benefits to the appropriate activities based on completed weekly time sheets.

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**Finding 2001-19**

COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM – CFDA 14.228  
Administered by: Rhode Island Department of Administration

SUBRECIPIENT MONITORING

Office of Management and Budget Circular A-133 requires pass-through entities to (1) monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, (2) ensure that subrecipients expending \$300,000 or more in federal awards have met applicable audit requirements, (3) ensure that appropriate corrective action is taken on findings, and (4) require that subrecipients permit the pass-through entity and auditors access to records and financial statements to ensure compliance with the Circular.

We found that, during fiscal 2001, the Department did not fully perform certain aspects of its subrecipient monitoring procedures. Specifically, certain planned site visits of subrecipients to assess compliance with program requirements were not conducted and review of subrecipient audit reports was not performed on a timely basis. At the time of our audit, few of the fiscal 2000 audit reports had been reviewed.

The Department needs to improve its monitoring procedures to ensure that subrecipients are using CDBG funds for authorized purposes in compliance with laws, regulations and the provisions of contract and grant agreements.

Questioned Costs: None

RECOMMENDATION

2001-19      Improve subrecipient monitoring procedures by ensuring all required subrecipient site visits are conducted and by reviewing all subrecipient audit reports on a timely basis.

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**Finding 2001-20**

UNEMPLOYMENT INSURANCE – CFDA 17.225  
Administered by: Department of Labor and Training (DLT)

QUESTIONED COST - PAYROLL COSTS

OMB Circular A-87 requires that the distribution of salary and fringe benefit costs to a program or activity be supported by personnel activity reports or equivalent documentation when employees work on multiple activities or cost objectives.

We question certain allocated salary and fringe benefit costs charged to the Unemployment Insurance program by the Office of the General Treasurer. The allocated costs relate to functions performed by the Office of the General Treasurer (e.g. bank account reconciliation, check replacement) which are necessary for the overall administration of the program. The costs allocated to the program are varying percentages of the total salary and fringe benefit costs for certain individuals employed within the Office of the General Treasurer. The percentage of each individual's total salary and fringe benefit cost was not supported by timesheets or other equivalent documentation. Approximately \$238,000 was charged during fiscal 2001. The Office of the General Treasurer indicated that the allocations were based upon specific knowledge of each individual's duties including time spent on Unemployment Insurance program functions.

Questioned Costs: \$238,000

RECOMMENDATION

2001-20      Require the Office of the General Treasurer to maintain timesheets or other equivalent documentation to support allocations of employee salary and fringe benefits costs to the Unemployment Insurance Program. Include this requirement in the interagency agreement.

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**Finding 2001-21**

UNEMPLOYMENT INSURANCE – CFDA 17.225  
Administered by the Department of Labor and Training (DLT)

ALLOWABLE COSTS/COST PRINCIPLES

The Department of Labor and Training (DLT) maintains a separate tax unit, which is responsible for the administration and collection of various employment related taxes. Prior to January 1, 2001, the costs associated with this unit were allocated to the federally funded Unemployment Insurance Program, the state funded Job Development Fund and Temporary Disability Insurance Program. In accordance with OMB Circular A-87 “Cost Principles for State, Local and Indian Tribal Governments”, the allocation was based upon a *cost sharing plan* approved by the U.S. Department of Labor, Office of Cost Determination.

Effective January 1, 2001, the State enacted a new employment related tax known as the Reemployment Fund Tax. The new tax is also administered and collected by the DLT tax unit (organizationally part of the Department of Administration), therefore, the Reemployment Fund Program should have been allocated its portion of the tax units costs during the last six months of the fiscal year ended June 30, 2001. Instead, DLT continued to follow the previously approved *cost sharing plan* which only allocated the tax unit’s costs between the previous three taxes and with no allocation to the new tax. As a result, it appears the Unemployment Insurance Program was charged more than its appropriate share of the tax activity costs.

As of January 31, 2002, a revised *cost sharing plan* proposal addressing allocation to the new tax was submitted to the U.S. Department of Labor, for approval. Using the revised *cost sharing plan* proposal, DLT estimates that the Unemployment Insurance Program was over-allocated approximately \$340,000, because they did not allocate any tax activity cost to the new tax during the last six months of fiscal 2001.

Questioned Costs: approximately \$340,000

RECOMMENDATIONS

- |          |   |
|----------|---|
| 2001-21a | Determine the exact amount of over charges to the Unemployment Insurance Program, upon receiving federal approval of the revised <i>cost sharing plan</i> . |
| 2001-21b | Adjust future federal reports and drawdowns for the amount inappropriately claimed and reimbursed.  |

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**Finding 2001-22**

TRADE ADJUSTMENT ASSISTANCE – WORKERS – CFDA 17.245  
Administered by the Department of Labor and Training (DLT)

SPECIAL REPORTING

The Department of Labor and Training (DLT) should continue to improve internal control procedures designed to ensure the reliability of data reported on federal report form ETA 563 (*Quarterly Determinations, Allowance Activities and Reemployment Services Under the Trade Act – OMB No. 1205-0016*). This report is submitted on a quarterly basis to the U.S. Department of Labor and contains information regarding services provided by DLT through the Trade Adjustment Assistance – Workers Program.

During fiscal 2001, DLT did make some improvements in the overall reliability of the form ETA 563 report information, however, we found the Department still does not maintain adequate detailed supporting documentation for all amounts included in the ETA 563 report as required by 20 CFR section 617.57. In addition, information included on the federal report was not reconciled to other sources to ensure its validity and completeness. Supervisory review and approval of the report requires further enhancement.

Specifically, we found that some of the original supporting lists were not maintained. Upon request, the Department reconstructed the detailed supporting lists, but we identified various discrepancies between amounts included in the reports and the reconstructed detailed information. In other cases, we found specific costs that should have been included in the reports, but were mistakenly overlooked. We also noted that benefit and training payment data was reported upon approval rather than when paid as required by report instructions.

North America Free Trade Agreement (NAFTA) - TAA expenditures totaling \$1,242 were paid and incorrectly reported on ETA 563 reports as a TAA cost. The Department does not have procedures in place to ensure the appropriate reporting of these program costs.

As noted during the prior year, the process used by the Department to accumulate report data remains somewhat cumbersome. For example, some report information is initially accumulated on manually prepared logs and other information is entered directly into a database. Numerous computer queries must be run to extract the required data. This process is somewhat redundant because most of this information is already recorded in other automated systems (some additional programming may be necessary to the obtain information in the manner required for the report).

We believe that many of these problems could be solved by improving internal control procedures and by further automating the accumulation of data through existing information

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systems to the extent possible. Further, to ensure the completeness and accuracy of report information, the department should require a closer supervisory review and written approval of the reports before submitting them to the federal government. In addition, information in the reports should be reconciled to the state accounting system and control totals should be developed to ensure the reliability of other statistical data not derived from the State's accounting system. The Department should also seek to further automate the data accumulation process using data already contained in existing systems.

Questioned Costs: None

RECOMMENDATIONS

- |          |   |
|----------|---|
| 2001-22a | Improve internal control procedures to ensure the accuracy and completeness of ETA 563 report information. Report all information required by the instructions, in the manner specified, and on the proper federal reports. |
| 2001-22b | Maintain adequate detailed supporting documentation for all amounts reported.   |
| 2001-22c | Seek to further automate the data accumulation process using existing and more sophisticated systems.   |
| 2001-22d | Assess the accuracy of ETA 563 reports previously submitted during fiscal 2000 and fiscal 2001. Submit revised reports as necessary.  |

**Finding 2001-23**

WORKFORCE INVESTMENT ACT – CFDA 17.255  
Administered by: Department of Labor and Training (DLT)

FEDERAL FINANCIAL REPORTING

Expenditures incurred by the Department of Labor and Training (DLT) are processed through the State's accounting system. The Department also maintains an internal accounting system, the Financial Accounting and Reporting System (FARS), in order to classify and allocate program costs among the appropriate federal grants and state programs.

States are required to report Workforce Investment Act (WIA) expenditures to the United States Department of Labor on a quarterly basis for each WIA program. The Workforce

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Investment Office (WIO), within DLT, prepares the federal reports. The WIO accumulates data from each of its two workforce investment areas as well as the Dislocated Worker Unit (also within DLT) and submits 18 separate Financial Status Reports (OMB Form Number 1205-0408) to the federal grantor for each WIA program allotment and other funding streams. Expenditures reported by the Greater Rhode Island (GRI) workforce investment area and the Dislocated Worker Unit are derived from the FARS.

Our review of the WIA Financial Status Reports prepared by the WIO for fiscal 2001 revealed the following exceptions:

- DLT informed us they did not report expenditures on the full accrual basis of accounting for the first three quarters, as required by the report instructions;
- fourth quarter expenditure accruals was overstated by approximately \$8,000 for the Dislocated Worker Program and understated by approximately \$10,000 and \$600 for the Youth and Adult Programs respectively. The net effect of the accrual errors was a \$2,600 understatement for all programs combined;
- the Statewide Activities report included both administrative and program costs in the total outlays section, but indicated no administrative cost outlays in the separate section intended to isolate this portion of the total cost. According to DLT, the amount of administrative outlays that should have been separately reported totaled \$338,147.

Controls over the preparation of financial reports for the WIA program should be enhanced to ensure reports are accurate and prepared in accordance with program directives.

Questioned Costs: None

#### RECOMMENDATION

2001-23      Improve controls to ensure the accuracy and completeness of Financial Status Report information in accordance with the report instructions.

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**Finding 2001-24**

WORKFORCE INVESTMENT ACT – CFDA 17.255  
Administered by the Department of Labor and Training (DLT)

EARMARKING/ELIGIBILITY – YOUTH ACTIVITIES

The Workforce Investment Office (WIO) within the Department of Labor and Training (DLT) and the two local workforce investment areas do not have procedures to continually monitor and ensure compliance with the low-income earmarking/eligibility requirement.

Federal regulation 20 CFR section 664.220, requires that a minimum of 95% of eligible participants in youth activities must meet disadvantaged low-income criteria. Only up to a maximum of 5% of youth participants can be deemed eligible if they do not meet low-income criteria, but meet other criteria. To ensure compliance with this requirement, each local workforce investment area should develop a system to continually record and track compliance with the 95% disadvantaged low-income requirement and the 5% exception criteria, at both the individual case level and at the overall combined participant level. This information should be reported to the DLT WIO on a frequent basis for use in monitoring and ensuring overall program compliance.

Questioned Costs: None

RECOMMENDATION

2001-24      Develop control procedures to continually monitor and ensure compliance with the 95% disadvantaged low-income requirement and the 5% exception criteria for youth activities.

**Finding 2001-25**

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205  
Administered by: Rhode Island Department of Transportation (RIDOT)

ACTIVITIES ALLOWED OR UNALLOWED

We found one federal aid project where amounts were inappropriately claimed and reimbursed over a seven-year period with federal Highway and Planning Construction Program funds.

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The federal project began in July 1984 with 100% federal funding. In 1995, a project modification agreement was processed which reduced the authorized federal share of project costs to 80%. However, RIDOT did not change the federal billing rate in the project billing system master file, and continued to draw federal funds at 100% through December 19, 2001 when we detected this error. RIDOT has corrected the billing rate in the master file.

Program revenues and expenditures within the State accounting system were corrected as of June 30, 2001 by an audit adjustment totaling \$762,404.

Questioned Costs: \$762,404

RECOMMENDATIONS

- |          |  |
|----------|--|
| 2001-25a | Adjust federal reports and future drawdowns of federal funds for the amounts inappropriately claimed and reimbursed. |
| 2001-25b | Strengthen internal control procedures to ensure that federal funds are not overdrawn.                               |

**Finding 2001-26**

HIGHWAY SAFETY CLUSTER:

State and Community Highway Safety - CFDA 20.600  
Administered by: Rhode Island Department of Transportation (RIDOT) – Governor’s Office on  
Highway Safety

ACCOUNTING AND REPORTING OF EXPENDITURES

The Governor’s Office on Highway Safety (GOHS) had expenditures totaling \$1,795,819 during fiscal 2001, financed by federal and state funds. Expenditures are recorded in the State Controller’s accounting system which, in this instance, does not identify expenditures by federal grant award. Such identification is necessary because federal regulations require that the GOHS periodically submit a report of expenditures by federal grant award to NHTSA.

We found that during fiscal 2001, the GOHS did not reconcile expenditures between the State Controller’s accounting system and expenditure reports submitted to NHTSA. Reconciling expenditures would strengthen internal control over the accounting and reporting of expenditures by identifying expenditures recorded in the state accounting system by federal program and identifying differences between the accounting system and reports submitted to NHTSA.

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Reconciling expenditures would also strengthen internal control over audited expenditures because federal regulations for Single Audit require that the audit report identify expenditures of federal awards by Catalog of Federal Domestic Assistance (CFDA) number. We found two instances during fiscal 2001 where the GOHS awarded federal funds to a state agency for a highway safety related project. These two grants had fiscal 2001 expenditures totaling \$159,570. Of this total, \$141,416 was eligible for federal reimbursement as of June 30, 2001. In each case, the state agency did not report to the GOHS, and the GOHS did not request, expenditures eligible for federal reimbursement as of June 30, 2001. This impacts the reporting of program expenditures to the federal government and the timely reimbursement of such amounts by the federal government.

Questioned Costs: None

RECOMMENDATIONS

- |          |   |
|----------|---|
| 2001-26a | Record expenditures for each federal grant in a separate appropriation account in the State Controller's accounting system. |
| 2001-26b | Reconcile expenditures between the State Controller's accounting system and expenditure reports submitted to NHTSA.         |

**Finding 2001-27**

TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA 84.010

SPECIAL EDUCATION CLUSTER:

    Special Education – Grants to States – CFDA 84.027

    Special Education – Preschool Grants – CFDA 84.173

CLASS SIZE REDUCTION – CFDA 84.340

Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT CASH MANAGEMENT

RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month.

The *Common Rule* {34 CFR 80.21(c) and 80.37(a)(4)} requires grantees (RIDE) to monitor drawdowns by their subrecipients to ensure that they conform substantially to the same standards of timing and amount as apply to the grantee. Those standards require minimizing the

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time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by grantees and subrecipients.

For those subawards which are primarily used to reimburse personnel costs, we suggest that RIDE advance a prorated amount to the subrecipient on each payday similar to the procedures provided for in 31 CFR 205.10(a).

Questioned Costs: None

RECOMMENDATION

2001-27      Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a).

**Finding 2001-28**

FEDERAL FAMILY EDUCATION LOANS (FFEL) – GUARANTY AGENCY –  
CFDA 84.032  
Administered by: Rhode Island Higher Education Assistance Authority

COLLECTION ACTIVITIES – DEFAULTED LOANS

Guaranty agencies are required to perform collection activities within certain time frames after it has paid a default claim filed by a lender. Prescribed collection activities were not followed for up to 96 defaulted loans totaling \$1,005,802 acquired from lenders on January 31, 2001. Consequently, federal reinsurance on the defaulted loans may be disallowed. Procedures in place at the Authority's Guaranteed Student Loans Systems and Data Processing Provider to notify the Authority to commence collection activities on defaulted loans failed on January 31, 2001.

Questioned costs: None

RECOMMENDATION

2001-28      The Authority should verify that all 96 loans are now subject to collection activities. The authority should also reconcile weekly defaults with the data in the collection activity system on a timely basis.

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**Finding 2001-29**

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Supplemental Educational Opportunity Grants – CFDA 84.007

Federal Family Education Loans – CFDA 84.032

Federal Work-Study Program – CFDA 84.033

Federal Perkins Loan Program – Federal Capital Contributions - CFDA 84.038

Federal Pell Grant Program – CFDA 84.063

Administered by: Rhode Island College

UNTIMELY RETURN OF REFUNDS

Refunds to the Student Financial Assistance programs are required to be deposited to the SFA accounts within 30 days or returned to the appropriate Federal Family Education Loan Program lender within 60 days of the date the student withdraws or takes a leave of absence. Fourteen out of 30 refunds selected for testwork were not returned within the required timeframes, although the refunds were eventually returned.

Questioned costs: None

RECOMMENDATION

2001-29      College policies should be reviewed to ensure that refunds are returned within the required timeframes.

**Finding 2001-30**

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Family Education Loans – CFDA 84.032

Administered by: Rhode Island College

UNTIMELY TRANSMISSION OF CONFIRMATION OF DEPOSITS

According to federal regulations, institutions must complete and return within 30 days of receipt student status confirmation reports sent by the National Student Loan Data System (NSLDS). Upon review of data submitted to NSLDS, we noted that the September 2000 transmission was not submitted until November 8, 2000, which is not in accordance with the 30 day requirement.

Questioned costs: None

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RECOMMENDATION

- 2001-30      The college should review its procedures over submission of withdrawal information to ensure that the information is reported within the timelines required by the federal government.

**Finding 2001-31**

STUDENT FINANCIAL ASSISTANCE CLUSTER:

    Federal Family Education Loans – CFDA 84.032

    Federal Work-Study Program – CFDA 84.033

Administered by: Rhode Island College

LACK OF VERIFICATION DOCUMENTATION

An institution shall require each applicant whose financial aid application is selected by the central processor, based on edits specified by the Department of Education, to verify the items specified. During our testwork, we noted that there was no documentation indicating that verification had been performed for one student out of the 30 selected for testwork.

Questioned costs: Federal Family Education Loans - CFDA 84.032 - \$9,255

    Federal Work-Study Program – CFDA 84.033 - \$5,545

RECOMMENDATION

- 2001-31      Policies should be enforced to ensure that all specified items are verified by the College prior to the disbursement of federal funds.

**Finding 2001-32**

STUDENT FINANCIAL ASSISTANCE CLUSTER:

    Federal Perkins Loan Program – Federal Capital Contributions - CFDA 84.038

Administered by: Rhode Island College

UNTIMELY EXECUTION OF PROMISSORY NOTES

The promissory note is the legally binding document that is evidence of a borrower's indebtedness to an institution. A student must sign this note before receiving any Perkins Loan funds. We reviewed six student files for evidence of promissory notes being signed prior to the

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first disbursement of funds, and noted that the disbursement of funds for both semesters occurred prior to the promissory note being signed for one student.

Questioned costs: None

RECOMMENDATION

2001-32      The College should review its policies and procedures in place to ensure all individuals receiving a Perkins Loan have properly signed a promissory note prior to receiving a disbursement of funds.

**Finding 2001-33**

STUDENT FINANCIAL ASSISTANCE CLUSTER:

Federal Pell Grant Program – CFDA 84.063

Administered by: Rhode Island College

CONTROLS OVER PELL PROGRAM DISBURSEMENTS

An institution must submit an origination record for each Pell recipient. The origination record establishes a student's eligibility and the amount of Pell a student can receive for an award year. A disbursement record should be submitted no later than 30 days after the disbursement is made. Institutions are required to report disbursements within 30 days of making payment. We selected 30 students for Pell disbursement testwork, and noted 27 students whose origination acceptance date occurred after the College made its first disbursement to the students. In addition, we noted that the first installment was not transmitted to the Department of Education within the required 30 days for 24 students in the fall semester and 28 students for the spring.

Questioned costs: None

RECOMMENDATION

2001-33      The College should review its procedures to ensure all students are properly originated prior to making disbursements to student accounts. Policies and procedures over transmission of disbursement records to the Department of Education should also be reviewed to ensure that data is transmitted within the required 30 days.

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**Finding 2001-34**

REHABILITATION SERVICES – VOCATIONAL REHABILITATION

GRANTS TO STATES – CFDA 84.126

Administered by: Department of Human Services – Office of Rehabilitation Services (ORS)

REPORTING – CLIENT STATUS DATA

ORS utilizes a computer system to accumulate all Vocational Rehabilitation case data from client application for services to case closure. This system is used to generate data needed to complete the annual Vocational Rehabilitation Program/Cost Report (RSA-2). The information reported should be as of the end of the federal fiscal year.

We found that adequate controls were not in place to ensure the accuracy of data reported on the annual RSA-2 because the computer system cannot capture client status data as of prior dates (i.e., the system can only generate information as of the date of inquiry). ORS has not generated the report necessary to complete the RSA-2 on the last day of the federal fiscal year and as a result, ORS cannot accurately complete the RSA-2 reports.

ORS should either ensure that system reports are generated on the last day of the fiscal year or modify its system to enable the retrieval of client status information as of a prior date.

Questioned Costs: None

RECOMMENDATION

2001-34      Generate reports on the last day of the federal fiscal year to ensure the accuracy of client status data reported on the RSA-2, or modify the computer system to allow retrieval of client status as of a prior date.

**Finding 2001-35**

CLASS SIZE REDUCTION – CFDA 84.340

Administered by: Department of Elementary and Secondary Education (RIDE)

LEVEL OF EFFORT

RIDE is entitled to receive its full allocation of Class Size Reduction program funds if the aggregate expenditures in the State for free public education in the preceding fiscal year is not less than 90% of such aggregate expenditures for the second preceding fiscal year (20 USC

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7371). RIDE does not have procedures in place to determine if this requirement was fulfilled and consequently controls were not adequate to ensure compliance with this requirement.

We calculated the aggregate expenditure for the preceding years and found that the State was in compliance with this requirement.

Questioned costs: None

RECOMMENDATION

2001-35      Implement procedures to ensure that the level of effort requirement regarding program expenditures in preceding years has been met.

**Finding 2001- 36**

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558  
Administered by: Department of Human Services (DHS)

INCOME ELIGIBILITY AND VERIFICATION SYSTEM

The Department of Human Services participates in the Income Eligibility and Verification System (IEVS) as required by Section 1137 of the Social Security Act as amended. Through this system, DHS coordinates data exchanges with other Federally-assisted benefit programs and utilizes the income and benefit information to determine individuals' eligibility for assistance and the amount of assistance.

The Department of Human Services conducts data interfaces with the Internal Revenue Service, the Social Security Administration and the Department of Labor and Training (the State Wage Information Collection Agency) to verify information about recipients of Federally-assisted programs, including the Temporary Assistance for Needy Families (TANF) program. Federal regulation (45 CFR 205.56) requires that the State agency review and compare the information obtained from data exchanges against information contained in recipients' case records to determine whether it affects the recipients' eligibility or the amount of assistance. The Department's INRHODES computer system receives the information from the data exchanges and automatically includes the data in the applicable case record. Caseworkers are then electronically prompted about the receipt of new data and are required to investigate and resolve any discrepancies.

The objective of our testing approach was to assess whether the Department was considering the information resulting from the required IEVS data matches in determining eligibility for TANF and the amounts of benefits. Specifically, we understand that case workers

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are prompted electronically through the Department's INRHODES computer system when new information resulting from the IEVS data matches is posted in the case record. Our testing involved randomly selecting 40 TANF cases where IEVS data had been electronically posted to a case record and then assessing whether that data had been considered in the eligibility and benefit determination process.

The methodology for IEVS case selection involved randomly generating 175 data matches from a file, provided by the Department's eligibility system contractor, of all interface matches during the state fiscal year. Beginning with the first random SWICA match, we utilized the Department's INRHODES eligibility system to research each SWICA match to determine whether the household was TANF eligible for the month of the interface discrepancy. We selected the first 40 cases that were TANF eligible during the month of the interface discrepancy for testing.

We noted the following:

- ❑ Seventeen instances of discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, seven discrepancies could have been easily resolved by the caseworker and would not appear to have impacted eligibility or the household's benefit level. Ten of the discrepancies appear to impact eligibility or the household's benefit level.
- ❑ Two instances where discrepancies were "cleared" by the caseworker by electronically entering an action code (e.g. no discrepancy exists), however, no documentation or comments to the electronic case file were present supporting this determination. Based on our evaluation these discrepancies appeared to impact the household's eligibility or benefit level. Since the data match was "cleared", no modifications to the household's case record were initiated.
- ❑ Two instances were noted where data match discrepancies existed, however, there was no indication that the discrepancy had been cleared nor evidence that the department's eligibility system generated a caseworker warning message indicating the discrepancy existed.

Failure to promptly investigate and resolve IEVS interface data weakens the Department's controls over the determination of eligibility and benefit levels for the TANF program. Management acknowledged that, due to various factors, IEVS interface discrepancies are not always resolved promptly.

Questioned Costs: None

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RECOMMENDATIONS

- 2001-36a      Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.
- 2001-36b      Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or amount of benefit levels.
- 2001-36c      Investigate the reasons why certain case records lack evidence of either (1) resolution of the IEVS discrepancy, or (2) evidence that the case worker had received electronic notice that the discrepancy existed.

**Finding 2001-37**

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558  
Administered by: Department of Human Services (DHS)

INCOME ELIGIBILITY AND VERIFICATION SYSTEM – GENERAL CONTROLS

Electronic data processing controls are the policies and procedures that provide reasonable assurance that computer based data are complete, valid and reliable. Procedures designed to ensure that changes to application software and all subsequent modifications are authorized, reviewed and tested prior to implementation are an integral component of these controls. We noted one instance where a “on-call programmer” initiated a program change that adversely affected the department’s interface processing during fiscal year 2001. The impact of the program change, as described below, was not detected by the department’s existing EDP controls.

The department, as part of its income eligibility and verification system (IEVS), conducts data interfaces with various entities including the Internal Revenue Service, the Social Security Administration and the Department of Labor and Training to verify information about recipients of the Temporary Assistance for Needy Families (TANF) program. We obtained from the department a file containing all IEVS case record matches for the period July 1, 2000 through June 30, 2001 and generated control totals for each type of IEVS match. We compared our control totals to department produced summary reports and noted that only one case record match related to the IRS interface process for state fiscal year 2001.

Department personnel informed us that the problem related to the processing of the IRS interface data file during a July 2000 nightly batch production cycle. As part of the interface

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process the IRS provides the department with tape files containing social security number matches that have reported dividends or interest. When a discrepancy exists between the asset amount reported by the IRS interface, and the amounts in the INRHODES eligibility system, an edit message is generated in INRHODES prompting case workers to research any potential impact on eligibility or benefit levels.

We were informed that during the July 2000 production cycle the IRS interface program aborted due to a data exception. Department personnel indicated that the standard production operating procedures are to have all production problems resolved by an “on-call programmer”. The programmer inserted an additional line of code to existing logic to bypass the erroneous data. The program was then restarted and run, however, we were informed that the added line of code resulted in the INRHODES system failing to generate worker edit messages for all IRS interface discrepancies from that date forward. The interface program was run seven additional times during the State fiscal year. Hence, case workers were never informed of, and never resolved, any IRS discrepancies during our audit period.

Additionally, the application program produces a statistical summary detailing the number of records read, as well as, the number of output transactions (worker edit messages). We were informed that the Department’s review of the production summary reports is limited and therefore did not detect the fact that no edit messages were generated.

While it is not uncommon for program changes to be required on an emergency basis, effective program change procedures should require that all modifications to existing programs be controlled, properly documented, reviewed and approved. In this instance, there was no review or testing of the modified code.

The department has indicated plans to correct and test the IRS interface program and rerun the fiscal year 2001 IRS data matches, and strengthen controls by establishing a program change log to document and track program modifications performed outside the normal production process.

Questioned Costs: None

#### RECOMMENDATIONS

- |          |   |
|----------|---|
| 2001-37a | Strengthen control procedures to ensure that changes to application software and all subsequent modifications are controlled, properly documented, reviewed and approved. |
| 2001-37b | Correct the IRS interface program and rerun fiscal year 2001 IRS data matches.  |

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**Finding 2001-38**

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

CHILD SUPPORT COLLECTIONS AND DISTRIBUTIONS

CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system. This is an important control over program receipts and disbursements that approximate \$66 million annually. Accountability for child support collections is also important because these collections affect awards from the federal government, which reduce the State share of program costs.

At June 30, 2001, the State accounting system reported approximately \$650,000 more than the amounts reported by the CSE computer system as undistributed collections. All collections and distributions are processed through the CSE computer system; however, because federal CSE reporting guidelines do not require the reporting of non IV-D collections and distributions these amounts are excluded from reports generated by the CSE computer system. Reports are not available from the system that includes all collections and distributions and routine reconciliations are not performed between the amounts reported by the two systems. The difference could not be explained at the time of our audit.

As previously reported in our audit reports for fiscal years 1992 through 2000, CSE should report all child support collections and distributions in its accounting system and reconcile these amounts with those recorded in the State accounting system. This would provide further assurances that these collections and distributions are properly controlled and reported.

In order to perform these reconciliations, modifications are necessary to the reports provided by the Department's computer system. Certain changes in programming have been implemented during fiscal 2001 that have narrowed the differences between the two accounting systems. Further programming changes may be required to ensure all receipts and disbursements processed by the computer system are included on summary reports produced by the system. Any remaining differences between receipts, disbursements and undistributed balances reported by the two accounting systems should be investigated and resolved on a timely basis.

Additionally, once the programming modifications are made to reports generated by INRHODES, a new account should be established within the State accounting system for all new child support collections and distributions. This would facilitate reconciliations going forward and segregate past unreconciled differences for separate analysis.

The auditee disagrees with the inclusion of this finding in the Single Audit Report and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

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Questioned costs: None

RECOMMENDATIONS

- 2001-38a      Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.
- 2001-38b      Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems.

**Finding 2001-39**

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

SECURING AND ENFORCING MEDICAL SUPPORT OBLIGATIONS

CSE is required by 45 CFR 303.31 to verify that the noncustodial parent has obtained health insurance coverage for minor children in response to a court order. If coverage is not obtained, CSE is required to enforce the medical support order, unless health insurance was not available to the noncustodial parent at a reasonable cost. CSE is also required to inform the state Medicaid agency whenever a new or modified medical support order is issued and medical coverage information is obtained. The state Medicaid agency receives notification of new or modified medical support orders only when such information is entered into the medical insurance panel.

We tested a random sample of 25 cases in which medical support had been ordered by the court, and it had been determined that health insurance was available to the noncustodial parent at a reasonable cost. In 7 of the 25 cases tested, we found that no information had been entered into the medical insurance panel of the CSE computerized INRHODES system. Additionally, no documentation existed to demonstrate that action had been taken during fiscal 2001 to enforce these 7 medical support orders. Consequently, medical coverage for the children included in these cases was provided by Medicaid since no other medical coverage information was available to the State Medicaid agency.

Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced. Controls should be enhanced to ensure that appropriate follow-up action is initiated to obtain specific medical coverage information from the absent parent and that the information is recorded within the computer system. When necessary, appropriate action should be taken by CSE to enforce the medical support orders.

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Questioned costs: None

RECOMMENDATIONS

- |          |  |
|----------|--|
| 2001-39a | Enhance control procedures to ensure that medical coverage information is recorded within the CSE INRHODES computer system on a timely basis when medical support is ordered by the court. |
| 2001-39b | Initiate appropriate enforcement action for medical support orders.  |

**Finding 2001-40**

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

PROGRAM INCOME

CSE is required to allocate interest income earned on child support collections deposited in the State's General Fund and credit the share of such interest income as a reduction of program expenses. An adjustment was made for the first two quarters of fiscal 2001 interest earnings. However, the federal share of interest earnings on child support collections for last two quarters of fiscal year 2001 were not recorded.

Questioned Costs: \$25,194

RECOMMENDATION

- |         |   |
|---------|---|
| 2001-40 | Record program income for the amount of allocated interest earnings on child support collections deposited in the State's General Fund. |
|---------|---|

**Finding 2001-41**

LOW-INCOME HOME ENERGY ASSISTANCE- CFDA 93.568

Administered by: Department of Administration – State Energy Office (SEO)

SUBRECIPIENT MONITORING

Office of Management and Budget Circular A-133 requires pass-through entities to (1) monitor the activities of subrecipients as necessary to ensure that federal awards are used for

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authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, (2) ensure that subrecipients expending \$300,000 or more in federal awards have met applicable audit requirements, (3) ensure that appropriate corrective action is taken on findings, and (4) require that subrecipients permit the pass-through entity and auditors access to records and financial statements to ensure compliance with the Circular.

Approximately \$8 million of total Low-Income Home Energy Assistance Program (LIHEAP) expenditures (\$17.5 million) are made directly to subrecipients. The majority of remaining program expenditures are made by the SEO on behalf of clients determined to be eligible for the program by subrecipients. We found various deficiencies in the procedures employed to monitor subrecipients as outlined below:

- ❑ Management decisions are not issued within six-months of receipt of the subrecipient audit report as required by OMB Circular A-133 (subpart D section .400).
- ❑ Program personnel performing the audit report reviews may not have sufficient training in OMB A-133 Single Audit issues and consequently are less effective in performing the review of subrecipient audit reports.
- ❑ Contracts between the subrecipients and the State Energy Office do not reflect the current OMB Circular A-133 audit requirements and refer incorrectly to OMB Circular A-87 and A-110.
- ❑ The SEO did not have a contract in place with one of its subrecipients during fiscal 2001.

The SEO needs to improve its subrecipient monitoring procedures to ensure it fully meets its responsibilities as a pass-through entity and also to ensure that subrecipients are complying with program requirements.

Questioned Costs: None

#### RECOMMENDATIONS

- |          |   |
|----------|---|
| 2001-41a | Issue management decisions within 6 months of receipt of the audit report on all findings (applicable to LIHEAP) contained in subrecipient audit reports. |
| 2001-41b | Train personnel responsible for review of subrecipient audit reports on relevant single audit topics.   |
| 2001-41c | Update subrecipient contracts to reflect the current requirements of OMB Circular A-133.  |

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2001-41d      Ensure contracts are maintained with all subrecipients.

**Finding 2001-42**

LOW-INCOME HOME ENERGY ASSISTANCE- CFDA 93.568  
Administered by: Department of Administration – State Energy Office

SUSPENSION AND DEBARMENT

The State Energy Office utilizes various utility and fuel providers and contractors for the operation of the LIHEAP program. Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

During fiscal year 2001, the State Energy Office did not require its providers of fuel and utility services or subrecipients to certify that the organization and its principals are not suspended or debarred from participating in the LIHEAP program.

Questioned Costs: None

RECOMMENDATION

2001-42      Require all agreements with utility and fuel providers and subrecipients to include certifications that neither the entity nor its principals are suspended or debarred from participating in the LIHEAP program.

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**Finding 2001-43**

LOW-INCOME HOME ENERGY ASSISTANCE- CFDA 93.568  
Administered by: Department of Administration – State Energy Office

REPORTING

The State Energy Office was required to submit a financial status report (SF-269A *Financial Status Report*) for the Low-Income Home Energy Assistance Program but did not prepare the required report.

Questioned Costs: None

RECOMMENDATION

2001-43      Procedures should be enhanced to ensure that all federally required reports are filed within the required timeframes established by the granting agency. Submit the required financial status report.\_

**Finding 2001-44**

COMMUNITY SERVICES BLOCK GRANT - CFDA 93.569  
CHILD CARE AND DEVELOPMENT BLOCK GRANT – 93.575  
Administered by: Department of Human Services (DHS)

SUBRECIPIENT CASH MANAGEMENT

Federal regulations require DHS to provide its subrecipients with funds in amounts that are limited to their immediate cash needs.

The Department of Human Services (DHS) uses several non-profit agencies to carry out (1) Community Services Block Grant (CSBG) activities and (2) various child care services aimed at improving the quality of child care under the Child Care and Development Block Grant.

Addendum III, *Payments and Reports Schedule* of the standard Community Services Block Grant stipulates that the first contract payment will be made upon issuance of required documentation. The second through eleventh monthly payments, generally one-twelfth of the contract, are made upon submission of a request for payment. The standard child care “quality

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activities” contract allows for a first payment of approximately 40% of the total contract amount with remaining payments made on a quarterly basis upon submission of a request for payment.

Monthly requests do not reflect any financial data, including contract expenditures to date. Therefore, the Department does not know on a monthly basis the subrecipient’s cash on hand for the grant and its immediate cash needs. Contract Addendum III requires that entities submit to the Department on a quarterly basis a project fiscal report including funds received to date and total expended to date. Only then, on a quarterly basis, can the Department assess the subrecipient’s cash position relative to a specific federal program. Department procedures require an entity to submit their quarterly financial report prior to receiving the second monthly payment in the following quarter. For example, a subrecipient’s June 30 report, due July 15, must be submitted prior to the August payment. This affords the Department one of three quarterly opportunities to analyze an entity’s cash position.

The Department’s procedures are not effective in limiting subrecipient’s cash on hand and requests for cash to their immediate needs. We noted the following exceptions:

- ❑ The Department processed several payments to two of its nine CSBG subrecipients despite the entities’ quarterly reports reflecting excess cash on hand.
- ❑ For the Child Care and Development Block Grant, the first payment representing 40% of the total award amount was processed August 24, 2000, thereby “advancing” these entities Federal funds in excess of their immediate needs. We examined the applicable quarterly expenditure reports and noted that these child care subrecipients did not expend this advance until after December 31, 2000.

The department needs to strengthen its subrecipient cash management procedures to more effectively monitor its subrecipient’s cash position and limit payments to immediate cash needs.

Questioned Costs: None

#### RECOMMENDATION

- 2001-44      Strengthen subrecipient cash management procedures to provide reasonable assurance that subrecipient payments are limited to the entity’s immediate cash needs.

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**Finding 2001-45**

COMMUNITY SERVICES BLOCK GRANT – CFDA 93.569  
SOCIAL SERVICES BLOCK GRANT - CFDA 93.667  
Administered by: Department of Human Services (DHS)

SUBRECIPIENT MONITORING

Office of Management and Budget Circular A-133 requires pass-through entities to (1) monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, (2) ensure that subrecipients expending \$300,000 or more in federal awards have met applicable audit requirements, (3) ensure that appropriate corrective action is taken on findings, and (4) require that subrecipients permit the pass-through entity and auditors access to records and financial statements to ensure compliance with the Circular.

The department utilizes multiple subrecipients to administer both the Social Services Block Grant (SSBG) and the Community Services Block Grant (CSBG). Awards range from under \$20,000 to in excess of \$700,000.

The department's current subrecipient monitoring procedures include review of audit reports for those subrecipients expending more than \$300,000 of federal awards (from all sources) and ensuring that appropriate corrective action is taken on applicable audit findings. We found that the Department's subrecipient monitoring procedures, particularly for entities expending less than \$300,000 in federal awards, may not be sufficiently comprehensive to ensure federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements. The department needs to strengthen its subrecipient monitoring procedures for the following reasons:

- ❑ Entities not subject to the audit requirements of OMB Circular A-133 but awarded in excess of \$25,000 must submit an "acceptable audited financial statement prepared by an independent auditor". This audit focuses only on the financial activity of the entity and provides no assurance on compliance with requirements applicable to federal programs. No other procedures are in place to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of the grant agreement.
- ❑ An A-133 single audit report may be submitted for a subrecipient but a particular program (e.g. SSBG or CSBG) may not have been tested as a major program as part of the audit. Consequently, the Department may not have any specific assurance that federal funds for a particular program were expended in compliance with federal requirements.

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- ❑ One of the department's larger subrecipients (receiving over \$1 million in SSBG and CSBG funding during state fiscal year 2001) has been chronically late in submitting the required A-133 audit reports. By contract, the audit must be submitted within six months of the entity's fiscal year end. The Department received the entity's fiscal year end June 30, 1999 audit report on January 6, 2001 (12 months past its due date), and the fiscal year ended June 30, 2000 audit report on August 7, 2001 (7 months past its due date).
- ❑ The entity's independent auditors reported five findings required to be reported in accordance with OMB Circular A-133. Specific areas cited included that quarterly Federal expenditure reports were inaccurate and did not reflect actual expenditures, missing disbursement documentation, failure to maintain employee distribution reports in accordance with Circular A-122 and lack of procedures for obtaining competitive bids. Three of the five findings were repeated in the fiscal year 2000 report. As of January 2002, the Department had not reviewed the entity's audit report or requested that the entity provide a corrective action plan relating to the auditor's findings.
- ❑ Eight of the Department's nine Community Services Block Grant subrecipients received more than \$300,000 in Federal funds (all programs). Accordingly, each subrecipient is required by contract to submit an audit conducted under OMB Circular A-133 within six months of its fiscal year end. The Department did not receive two subrecipients' audit reports for the fiscal year ended June 30, 2000 until October 2001 (10 months late by contract). As of January 2002, the Department had not yet reviewed either entity's audit report.
- ❑ Corrective action plans are reviewed as part of the review of audit reports, however, management decisions are not issued as required by OMB Circular A-133 (subpart D section .400). Management decisions are required to be issued within six-months of submission of the audit report and should indicate whether the finding is sustained, reasons for the decision, and the expected subrecipient action required.

Review of A-133 audit reports should be merely one tool used by the department as part of its overall subrecipient monitoring process. The department's current procedures could be enhanced by performing subrecipient site visits to review financial records such as, documentation supporting expenditure reports, employee timesheets as required by OMB's *Cost Principles for Non-Profit Organizations*, and the allocation of grant personnel costs. Site visits would also provide the opportunity to observe the overall fiscal operations of the entity.

The Department believes that enhancing its subrecipient monitoring procedures will require adding one additional person to this function.

Questioned Costs: None

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RECOMMENDATIONS

- 2001-45a      Strengthen subrecipient monitoring procedures to (1) ensure timely receipt of subrecipient audit reports and (2) ensure the timely review of audit reports and required corrective action plans,
- 2001-45b      Perform alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient’s compliance with program requirements.
- 2001-45c      Issue management decisions with six-months of receipt of the audit report as required by OMB Circular A-133.

**Finding 2001-46**

**CHILD CARE CLUSTER:**

Child Care and Development Block Grant - CFDA 93.575

Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596

Administered by: Department of Human Services (DHS)

CHILD CARE CASE FILE DOCUMENTATION

The Department provides child care services to families participating in an approved employment plan of the State’s Family Independence Program and to children of low income families whose supporting parent or caretaker relative is employed and whose gross income is within established eligibility limits. Department personnel from the child care office or Family Independence Program offices accept applications and approve payment for child care services. An application package for child care services must include the Child Care Application (CCS-1), the Parent/Provider Agreement (CCS-2 or CCS-3), an IRS Form W-9 and documentation supporting the household’s income. The Department’s Procedure Manual (Section 818.30) requires that the agency representative consider and verify the combined total of earned and unearned income, including child support, in determining eligibility.

We tested the case files of 40 children receiving child care services to determine whether the required eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. We noted the following issues concerning the child care eligibility determination process:

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- ❑ Five instances where the required hardcopy documentation (e.g. application, parent provider / agreement, income documentation) could not be located.
- ❑ Seven instances where the earned income amount (wages) utilized in the child care eligibility calculation differed from the hardcopy income documentation contained in the case file. Five of the seven differences resulted in an incorrect income level which impacted the provider’s payment and the parent’s copayment.
- ❑ Four instances where the unearned income from child support, utilized in the child care eligibility calculation, differed from the data reflected in the eligibility system’s Child Support module. Two of the four differences resulted in an incorrect income level which impacted the provider’s payment and the parent’s copayment.

Since child care workers failed to comply with established procedures, provider payments and the required copayment amounts were incorrectly calculated in some instances.

Questioned Costs: None

RECOMMENDATION

2001-46      Adhere to internal procedures requiring agency personnel obtain and utilize the appropriate documentation to update electronic case file records prior to approving child care eligibility and determining payment amounts.

**Finding 2001-47**

FOSTER CARE – TITLE IV-E – CFDA 93.658  
Administered by: Department of Children, Youth, and Families (DCYF)

ELIGIBILITY

DCYF can obtain federal funding for certain costs of keeping children in foster care such as room and board, day care and clothing allowances (known as maintenance costs). Federal participation is allowable for those cases that meet specific eligibility criteria including the following:

- ❑ the foster family home or child-care institution in which the child resides must be fully licensed {42 USC 671 (a) (10) and 672 (c)}; and
- ❑ the foster family home provider must have satisfactorily met a criminal records check with respect to prospective foster and adoptive parents {45 CFR 1356.30(a) and (b)}.

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The federal share of maintenance costs (exclusive of day care costs) totaled \$3,525,462 in fiscal year 2001. We selected a sample of payments made on behalf of 25 children from this universe totaling \$2,932 in order to determine if these cases met program eligibility requirements. We found one case that was not eligible for federal participation because there was no evidence of a criminal records check or that a fire inspection of the foster home had been performed (which is a required element of licensing). The federal share of these unallowable costs totaled \$21.12.

Questioned Costs: \$21.12

RECOMMENDATION

2001-47      Adjust federal reports to reimburse the federal government for the unallowable maintenance costs charged during fiscal year 2001.

**Finding 2001-48**

FOSTER CARE – TITLE IV-E – CFDA 93.658  
Administered by: Department of Children, Youth, and Families (DCYF)

SUSPENSION AND DEBARMENT

Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

During fiscal year 2001, the Department of Children, Youth and Families contracted with certain child care institutions but did not require that these vendors certify that the organization and its principals are not suspended or debarred from participating in federal awards. This certification should be included in all contracts that are funded with Foster Care program funds.

Questioned Costs: None

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RECOMMENDATION

2001-48      Include certifications regarding suspension and debarment in contracts with child care institutions participating in the Foster Care - Title IV-E program.

**Finding 2001-49**

SOCIAL SERVICES BLOCK GRANT – CFDA 93.667  
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

CONTROLS OVER HOMEMAKER SERVICES BILLINGS

Payments to homemaker service providers for fiscal 2001 were processed through the Medicaid Management Information System operated by the State's fiscal agent. Approximately \$1.1 million was charged to the Social Services Block Grant program and \$11.1 million (state and federal share) was charged to the Medicaid program. We found that controls over these expenditures could be improved to ensure that amounts billed do not exceed the level and duration of service authorized and that amounts are correctly allocated to the appropriate funding source based upon eligibility criteria for the respective programs.

Department personnel complete an HS-3 *Authorization of Homemaker / Home Health Aide Services Adult Day Care* for each client. The form indicates general client information, the funding source to be used when billing, as well as the authorization period and hours authorized. DHS forwards a copy of the HS-3 authorization form to the homemaker service providers, however, this form is not provided to the fiscal agent processing billings for payment. Consequently the fiscal agent cannot match the authorized amount or period of service to billed amounts.

For certain individuals receiving homemaker services, an electronic case record has been established within the Department's INRHODES computer system which is used to administer various federal programs. The case records indicates funding source code, hours authorized and authorization period. Presently, this information is not communicated to and made a part of the MMIS which is used to process payments to the vendors. Further, case records only exist for individuals eligible for Medicaid. Case records have not been established for individuals receiving homemaker services under the SSBG program.

Vendors are responsible for billing under the proper funding code based upon information contained on the HS-3 *Authorization of Homemaker / Home Health Aide Services*

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*Adult Day Care.* Since information within the MMIS is incomplete regarding eligibility for all individuals receiving homemaker services, controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source. During fiscal 2001, the department processed an expenditure adjustment transferring approximately \$590,000 from the SSBG to Title XIX (Medical Assistance) to correct erroneous funding source codes indicated by the homemaker service vendors.

Questioned Costs: None

RECOMMENDATION

2001-49            Strengthen procedures to ensure that vendor billings for homemaker services are verified as to funding source, authorization period and authorized hours prior to payment.

**Finding 2001-50**

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767

Administered by: Department of Human Services (DHS)

ELIGIBILITY

The basic objective of the State Children’s Health Insurance Program (SCHIP) as authorized by Title XXI of the Social Security Act is to initiate or expand health insurance programs for low-income, uninsured children. States are afforded flexibility in the implementation of programs to meet this objective. In Rhode Island, the State has obtained waivers from the federal government that allow reimbursement of medical insurance coverage provided to certain individuals previously under the Medicaid program at the enhanced SCHIP federal financial participation rate.

The Department’s procedures to identify and claim amounts eligible under SCHIP consist primarily of disbursing capitation or fee-for-service payments initially as Medicaid eligible expenditures and then, using “ad-hoc” queries against the Medicaid Management Information System (MMIS), reclassifying certain amounts based on eligibility characteristics. The queries are intended to isolate individuals meeting the SCHIP eligibility criteria and then accumulate expenditures (both fee-for-service and capitation payments) for the defined time period.

We found that controls are not adequate to accurately and reliably identify the individuals eligible for SCHIP program benefits and the accumulation of costs reimbursable under the program. Using “ad-hoc” queries against the MMIS to accumulate program expenditures

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represents a weakness in controls since the “ad-hoc” queries are subject to variability, are not well documented, and are not subject to any quality control process.

Controls over eligibility could be improved by specifically coding SCHIP eligible individuals within both INRHODES and the MMIS. This would ensure that program costs are consistently accumulated and reported for individuals meeting the SCHIP eligibility criteria.

The State, as outlined in its SCHIP State plan, has required that information about the existence of health insurance from other sources be considered in determining eligibility for SCHIP. This information may not be fully considered as intended in the SCHIP State Plan because of the manner in which eligibility is determined.

Eligibility for both the Medicaid and the SCHIP programs is determined through the Department’s INRHODES computer system, however, specific SCHIP eligibility criteria has not been programmed into that system. Instead, all individuals first become Medicaid eligible. Medicaid eligibility criteria within the INRHODES computer system inquires about the existence of other health insurance coverage primarily for third party liability purposes -- the existence of other health insurance coverage is recorded for cost avoidance purposes but does not automatically deny eligibility. SCHIP eligibility criteria requires a more thorough examination of the applicant’s access to health insurance coverage at a certain cost and consideration of whether the applicant denied or canceled coverage within the recent period preceding application. While the application for SCHIP collects information related to other insurance, the INRHODES system is not programmed to fully consider these unique SCHIP eligibility characteristics. Individuals that may not be SCHIP eligible because of other insurance related issues would still be considered Medicaid eligible.

DHS structures its “ad-hoc” queries designed to accumulate costs for SCHIP eligible individuals by excluding those with verified existence of other medical coverage. This does not fully meet the eligibility criteria outlined in the State’s SCHIP plan.

During fiscal 2001, certain amounts claimed as SCHIP reimbursable expenditures were erroneously claimed. We found that one category of individuals claimed under SCHIP was not identified as eligible in the SCHIP State plan. Specifically, individuals previously receiving Temporary Assistance to Needy Families who continue to receive Medicaid benefits as they transition to work were claimed at the enhanced FFP rate under the SCHIP program rather than regular Medicaid (53.7% vs. 67.7%). Since this group is already covered under regular Medicaid and since no specific federal approval was obtained from the federal government to allow reimbursement of this group at the SCHIP enhanced federal financial participation rate, these amounts are questioned in the amount of \$3,596,617.

This amount was adjusted on the State’s financial statements for fiscal 2001 in two parts:

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- ❑ Expenditures totaling \$1,528,808 were claimed which exceeded the two-year time period limit and were disallowed by the federal government for this reason. This amount was adjusted on the State's financial statements for fiscal 2001 and an adjustment was processed on the program federal report for the quarter ending September 2001.
- ❑ The remaining amount questioned - \$2,067, 809 was adjusted on the State's financial statements for fiscal 2001, however, no adjustment had been reflected on the federal program report at the time of our audit.

The amounts questioned above are the federal share of expenditures claimed for the SCHIP program. Since these costs would remain eligible under the Medicaid program the net amount questioned between both the SCHIP and Medicaid programs would be the difference in the regular Medicaid FFP rate (53.7%) and the enhanced SCHIP FFP rate (67.7%).

Questioned Costs: \$ 3,596,617 – SCHIP Program (net questioned costs after reflecting costs are eligible for Medicaid reimbursement is \$738,995)

#### RECOMMENDATIONS

- 2001-50a Code individuals meeting the SCHIP eligibility criteria in both the INRHODES and MMIS computer systems to improve control over the identification and accumulation of SCHIP eligible program costs.
- 2001-50b Modify the INRHODES computer system eligibility module to determine eligibility in accordance with the approved SCHIP State plan.

### **Finding 2001-51**

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767  
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

#### CASH MANAGEMENT

During fiscal 2001, all SCHIP program expenditures were initially claimed as Medicaid program expenditures and then later adjusted and claimed as SCHIP expenditures. Accordingly, cash is first drawn at the Medicaid FFP rate and then, at a later time when SCHIP eligible expenditures are identified, an adjustment is processed to reduce Medicaid expenditures eligible for a cash draw and the full SCHIP FFP rate is drawn for the eligible SCHIP expenditures. Although the State is not over reimbursed in total, during a quarter, expenditures that will eventually be reimbursed through SCHIP are reimbursed through Medicaid.

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Individuals meeting the SCHIP eligibility criteria should be coded in both the INRHODES and MMIS computer systems to allow these expenditures to be attributed to the appropriate funding source (i.e. Medicaid or SCHIP) at the time payment is made. This would also allow the appropriate cash award and letter of credit to be accessed for each program's share of costs.

Questioned costs: None

RECOMMENDATION

2001-51      Modify coding of SCHIP individuals within the MMIS to allow identification of SCHIP eligible expenditures at the time of payment.

**Finding 2001-52**

STATE MEDICAID FRAUD CONTROL UNITS – CFDA 93.775

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778

Administered by: Department of Human Services (DHS)  
Department of Attorney General

MEDICAID FRAUD CONTROL UNIT

States are required to establish and implement procedures to safeguard against unnecessary utilization of care and services, identify suspected fraud cases, investigate these cases, and refer those cases with sufficient evidence of suspected fraud to law enforcement officials. The State Medicaid Fraud Control Unit has been established pursuant to federal regulations within the Department of Attorney General.

Federal regulation 42 CFR 455.21 requires that the State Medicaid agency assist the fraud control unit in carrying out the unit's responsibilities. The regulations define access to records, information, and computerized data as necessary to allow the fraud unit to meet its objectives.

One of the primary sources of potential referral information is the utilization control and program integrity function performed by the State's fiscal agent in conjunction with the Department of Human Services. We found that the utilization review and program integrity function is being performed as required, however, during both fiscal 2000 and 2001 there were no cases referred to the Medicaid Fraud Control Unit by the Department of Human Services.

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We noted one case where the State’s fiscal agent recommended to DHS that a case should be referred to the State Medicaid Fraud Control Unit. DHS, however, disagreed with the recommendation and made no referral.

In general the fraud unit’s effectiveness could be improved if there was enhanced communication and flow of information between the departments. This may require identifying the types of information that are needed or could be made available to assist in the identification of potential fraud as well as making better use of the results of the utilization control and program integrity function.

Questioned Costs: None

RECOMMENDATION

2001-52      Improve communication and sharing of data between the Department of Human Services and the Department of Attorney General’s Medicaid Fraud Control Unit with the objective of enhancing identification and control of provider fraud.

**Finding 2001-53**

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778  
Administered by: Department of Human Services (DHS)

TIMELY IDENTIFICATION OF CLAIMS PAID ON BEHALF OF INELIGIBLE INDIVIDUALS

DHS utilizes an integrated computer system (INRHODES) as the official database used to determine and track eligibility for Medicaid. Transactions affecting eligibility are transmitted daily from INRHODES to update the MMIS recipient subsystem. As designed, Medicaid eligibility data from INRHODES should be replicated in the MMIS. In a limited number of instances, differences occur between the two databases. These differences can be summarized into three categories:

- ❑ Cases active in INRHODES, but inactive in the MMIS;
- ❑ Cases active in the MMIS, but closed in INRHODES; and
- ❑ Other differences, such as personal data, recipient income, category codes, etc.

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A monthly variance report identifying the differences between the two systems is generated by the MMIS, and forwarded to DHS for review. DHS is responsible for making the appropriate corrections to ensure the accuracy and reliability of the two systems. Variances occur in about 1,000 cases each month. DHS is now researching and making corrections on a relatively timely basis. However, when investigation of the case indicates that a case should have been considered ineligible, DHS is not quantifying, on a timely basis, the amount of claims paid on behalf of the ineligible individual.

During calendar year 2000, DHS identified 277 cases which were deemed ineligible. Another 121 cases were deemed ineligible during calendar 2001. No quantification of claims paid for these cases during the period of ineligibility has been made.

DHS believes that these eligibility variances will continue to occur due to the design of both INRHODES and the MMIS and further, any solution to completely eliminate these variances would require substantial and costly redesign of either or both systems. Accordingly, DHS's investigation of eligibility variances must be performed timely to minimize the likelihood and effect of payments made on behalf of ineligible individuals. Additionally, a complete resolution of eligibility variances must include determination of claims paid for ineligible individuals.

Questioned Costs: None

#### RECOMMENDATION

2001-53 Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.

### **Finding 2001-54**

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778  
Administered by: Department of Human Services (DHS)

#### FISCAL AGENT OVERSIGHT

DHS is highly dependent on its fiscal agent's extensive and complex computer system (MMIS), which includes controls for processing payments on behalf of eligible Medicaid beneficiaries as well as controls over disbursing state and federal funds. Oversight of these operations by DHS is essential to ensure that the fiscal agent complies with program regulations, and controls are functioning as designed. This is critically important considering the authority delegated to and dollar value of disbursements processed by the fiscal agent.

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We have recommended in prior audit reports that DHS improve its oversight by monitoring the internal control procedures and financial activities employed by the fiscal agent. Monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated. DHS may need additional resources to fully accomplish these objectives.

We noted the following matters:

- *DHS should ensure that the fiscal agent has adequate internal control policies and procedures in place to pay claims in accordance with program regulations and to control cash disbursements made on behalf of the State.* The internal control structure through which the fiscal agent processes Medicaid claims is totally separate and distinct from the State's accounting system and related control procedures used to disburse other state expenditures. We recommended previously that DHS or its fiscal agent obtain an annual examination of its internal control policies and procedures by independent certified public accountants attesting to the adequacy of the design and operation of key internal controls utilized by the fiscal agent. This type of examination is referred to as a "SAS 70" review. A "SAS 70" review of the MMIS is particularly important because (1) DHS has limited resources to perform effective monitoring of the fiscal agent, and (2) a claims processing quality control function is not in place, and (3) many program functions are fully delegated to the fiscal agent.
  
- *DHS has not developed procedures to effectively monitor the financial activities of the fiscal agent.* For example, DHS has not implemented sufficient procedures to verify MMIS financial data used to record program activity and prepare federal reports. Additionally, procedures are not in place to ensure all prescription drug rebates are billed and collected, provider accounts receivable balances are accurately reported, and third party liabilities have been identified and collected.

Questioned Costs: None

#### RECOMMENDATIONS

- |          |  |
|----------|--|
| 2001-54a | Obtain an annual examination ("SAS 70" review) performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.   |
| 2001-54b | Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected. |

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**Finding 2001-55**

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778  
Administered by: Department of Human Services (DHS)

THIRD PARTY LIABILITY IDENTIFICATION

Federal regulation (42 CFR 433.138) requires the State to maintain an action plan for pursuing third party liability (TPL) claims. States must develop procedures for determining the legal liability of third parties to pay for Medicaid services and integrate these procedures within the MMIS. Medicaid must exhaust third party resources prior to payment. When a third party liability is established after payment, reimbursement should be sought.

Although DHS performs certain TPL related functions, the fiscal agent is primarily responsible for the TPL process, including verifying recipients' TPL information, maintaining the systems used to identify TPL-related claims, and collecting from insurance carriers.

TPL information originates from the Department's INRHODES computer system and is then electronically communicated to the MMIS. The fiscal agent must verify this TPL data before it becomes effective. When the TPL information is verified, the MMIS generates a third party billing for claims paid during the time period when other third party insurance was effective. If the insurance is verified at the time the claim is submitted, the MMIS has a cost avoidance mechanism in place to deny payment of the claim.

During fiscal 2001, recovery from third party insurers was not attempted for claims totaling \$1.4 million (federal share approximately 752,000) because the time limit for submission of claims had expired. Claims totaling \$521,490 (federal share - \$280,040) were submitted for reimbursement but were subsequently denied mostly due to untimely filing.

DHS's inability to recover for TPL was caused mostly by failure to identify TPL information on a timely basis during fiscal 2001 and in prior years. Due to the amount of authority delegated to the fiscal agent with respect to TPL identification and collection, DHS should improve its monitoring of the fiscal agent's procedures, and all data (billings and collections) generated by those procedures. DHS should better coordinate the activities of its staff with that of the fiscal agent.

DHS should also investigate the possibility of sharing data with other medical insurers to facilitate the identification of third party liability coverage. Electronic interfaces or sharing files to allow data matches could streamline the process and allow for more timely identification of other medical coverage.

Questioned Costs: \$1,032,040

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RECOMMENDATIONS

- |          |   |
|----------|---|
| 2001-55a | Review existing procedures to ensure that third party liabilities are identified on a timely basis.                                       |
| 2001-55b | Reimburse the federal government for its share of uncollected third party liability recoveries.   |
| 2001-55c | Investigate the possibility of sharing data electronically with other insurers to facilitate the identification of third party liability. |

**Finding 2001-56**

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778  
Administered by: Department of Human Services (DHS)

CONTROLS OVER PROGRAM EXPENDITURES

Benefit Type Expenditures

Medical Assistance program expenditures, other than administrative costs, are primarily processed through the MMIS. The MMIS is designed to provide the basic controls over eligibility, types of services allowed and payment rates as well as enhanced controls to prevent duplicate payments, identify unusual patterns of utilization of services, and identify and collect third party liabilities.

During fiscal 2001, program expenditures in excess of \$100 million were processed by systems independent of the MMIS. The Department of Children, Youth and Families (DCYF) was responsible for nearly \$54 million of this amount, while the Department of Mental Health, Retardation and Hospitals was responsible for \$34 million and the Department of Human Services for the remaining \$12 million.

Other independent systems have not been designed to contain all the control procedures of the MMIS. Further, the potential for duplicate payment of the same claim exists – a claim could be submitted and paid from both the MMIS and the independent accounting system. Processing all program expenditures through a unified system would substantially enhance controls over programs administered by agencies outside the Department of Human Services.

During fiscal 2001, the Department of Children, Youth and Families began utilizing the MMIS in a limited manner to “process” claims. Disbursements to providers are still made

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independent of the MMIS. After payment, DCYF's computer system sorts Medicaid eligible claims for transmission to the MMIS. The MMIS performs limited edits on the claims and records the claims information within its database. Because many of DCYF's provider payments are allocated to multiple funding sources and other unique payment arrangements are utilized, the department believes it cannot use the MMIS to pay its providers. This current payment and claims processing structure enhances controls over eligibility and limits the potential for duplicate payment, however, all the enhanced control features of the MMIS are not applied to these claims.

When services are provided by State facilities, payments resulting from claims processed are suppressed and "payment" is accomplished by internal accounting transactions. We found that these amounts did not match the amount of claims adjudicated by the MMIS. Further, we found that each State agency that receives Medicaid funding in this manner initiates its own "payment" transaction without oversight or approval by the Department of Human Services (the Single State Medicaid Agency).

For example, the Department of Mental Health, Retardation and Hospitals increased a payment voucher for Medicaid claims by \$5 million more than was adjudicated through the MMIS. The amount was intended to be the estimated effect of an anticipated per diem rate adjustment reflecting actual costs for the fiscal year. The result of the per diem rate calculation could not be accurately predicted and an audit adjustment was posted to reduce program expenditures by \$5 million. DHS was unaware of the estimated interim rate adjustment processed by the other department. Further, we found that there is no oversight of the rate setting process for state operated facilities by DHS. There is review of the rate setting process for the Eleanor Slater Hospital (a state operated hospital) by the federal Medicare intermediary since the same rate is used to charge the Medicare program when patients qualify for coverage.

We also found that the State operated Rhode Island School for the Deaf did not record the appropriate amount of Medicaid reimbursement based upon claims submitted and processed through the MMIS. Total reimbursement reflected in the State accounting system was understated by a total of nearly \$400,000 for fiscal years 2000 and 2001

Payment to all providers should be based on actual claims submitted and processed through the MMIS. Internal accounting transactions authorizing payment to State facilities should be approved by the Department of Human Services.

#### Administrative Expenditures

Six separate departments of the State administer elements of the Medicaid cluster of programs. We noted inadequate controls to ensure compliance with program requirements for administrative expenditures incurred by departments other than the Department of Human Services. This occurs because there are no centralized controls in place, across departmental lines, to ensure that administrative expenditures comply with program requirements. While all administrative expenditures are disbursed through the State's centralized accounting system,

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controls to ensure compliance with federal program requirements are employed at the department level. Each department designs its own procedures and controls to meet federal program requirements. Expenditures charged to the Medicaid program by other departments are not reviewed or approved by DHS -- the single state Medicaid agency.

Questioned Costs: None

RECOMMENDATIONS

- |          |   |
|----------|---|
| 2001-56a | Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.   |
| 2001-56b | Ensure payments to state facilities are consistent with actual claims adjudicated by the MMIS. Review and approve all internal accounting transactions authorizing payment of Medicaid funds to State facilities. |
| 2001-56c | Implement oversight procedures for per diem rates established for state operated facilities.  |
| 2001-56d | Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.  |

**Finding 2001-57**

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778  
Administered by: Department of Human Services (DHS)

HOSPITAL SETTLEMENTS

DHS requires inpatient hospital providers to file cost settlement reports within one year from the end of the hospital's fiscal year. Such settlements typically result in recovery of significant amounts to the Medicaid program. For the hospital's fiscal years ending in 1994 through 1999, annual recoveries have ranged from \$6 million to \$10 million.

We found that, as of June 30, 2001, the following settlement reports had not been received. There are fourteen hospitals that must submit cost settlement reports each year.

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Hospital fiscal year ending in:	Number of settlement reports not yet received
1994	1
1995	1
1996	3
1997	5
1998	9
1999	10

Most hospitals claim that staffing limitations prevent them from filing cost reports timely. The section of the General Laws requiring settlement reports provides no mechanism to enforce compliance.

Questioned Costs: None

RECOMMENDATION

2001-57      Seek enforcement authority within the General laws to improve the timeliness of hospital settlements.

**Finding 2001-58**

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

SUSPENSION AND DEBARMENT

DHS utilizes various service providers and contractors for the operation of the Medical Assistance Program. Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

The department included provision for suspension and debarment certifications in its standard contracts effective in January 2000, however, most contracts will not be compliant with this provision until renewal.

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Previously, the department had not required providers of medical services to certify that the organization and its principals are not suspended or debarred from participating in the Medical Assistance Program. Revised provider agreements including the suspension and debarment certifications were mailed to all providers in November 2000. During our testing of claims paid in fiscal 2001, we found that 46 out of 91 providers tested did not have updated provider agreements in place which contained the required suspension and debarment certifications.

Questioned Costs: None

RECOMMENDATION

2001-58      Review and strengthen procedures designed to ensure current agreements containing the required suspension and debarment certifications are in place for all providers.

**Finding 2001-59**

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

DRUG USE REVIEW PROGRAM

Federal regulation (42 CFR 456.712) requires the State to prepare and submit, on an annual basis, a report summarizing specific information regarding the agency's Drug Use Review Program. Examples of the types of information required include a description of the nature and scope of the prospective and retrospective drug review programs, a summary of the educational interventions used, and an outline of the objectives, scope, and goals of the drug use review and surveillance and utilization functions.

DHS has not submitted the required reports for fiscal years 1998, 1999 and 2000.

Questioned Costs: None

RECOMMENDATION

2001-59      Prepare and submit the required Medicaid Drug Use Review Agency Report annually.

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**Finding 2001-60**

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778  
Administered by: Department of Human Services (DHS)

PROVIDER ELIGIBILITY

Providers receiving payment under the Medicaid program must be licensed by the appropriate licensing authority and must make certain disclosures to the State (42 CFR sections 431.107 and 447.10). DHS meets these requirements by obtaining information for the State Department of Health regarding licensing of providers and entering into agreements with each provider that address the required disclosure issues.

Our testing of claims paid during fiscal 2001 indicated that two providers were deemed inactive per licensing records at the Department of Health but were still active on the MMIS. Additionally, two other providers were deemed inactive per the Department of Health but remained active until a significant time later when the providers were changed to an inactive status on the MMIS. In these instances no claims were paid relating to services during the period when the provider was considered inactive.

We also assessed the status of the providers with sanctions as listed by the Department of Health with information contained within the MMIS. We found that one of the providers whose license was suspended was still active on the MMIS during that time period and claims totaling \$30,368 (federal share - \$16,335) were paid for services rendered within the period of suspension.

Further, we selected four providers listed as excluded providers on the federal HHS website. Of the four tested, we found one provider who was still listed as active on the MMIS but information on the HHS website listed the provider as excluded due to conviction of a program related offense.

Controls need to be enhanced to ensure the timely identification of providers who are ineligible for participation in the program for various reasons.

Questioned costs: \$16,335

RECOMMENDATION

2001-60      Review and strengthen existing procedures to ensure all Medicaid providers meet the requirement regarding provider eligibility.

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**Finding 2001-61**

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE -  
CFDA 93.959

Administered by: Department of Mental Health, Retardation and Hospitals

SUSPENSION AND DEBARMENT

Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

During fiscal year 2001, the Department of Mental Health, Retardation and Hospitals did not require its subrecipients to certify that the organization and its principals are not suspended or debarred from participating in the Block Grants for Prevention and Treatment of Substance Abuse Program.

Questioned Costs: None

RECOMMENDATION

2001-61      Require all subrecipients to certify that neither the entity nor its principals are suspended or debarred from participating in the Block Grants for Prevention and Treatment of Substance Abuse Program.

**Finding 2001-62**

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE -  
CFDA 93.959

Administered by: Department of Mental Health, Retardation and Hospitals

SUBRECIPIENT MONITORING

The majority of Substance Abuse block grant funds are passed-through to subrecipients in furtherance of program objectives. A significant amount of state funds are also provided to subrecipients for the same or similar objectives as the block grant funds. The Department essentially combines both the federal and state funds into one pool of available funds and makes allocations to various subrecipients. No distinction is made at the time of the award to the

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subrecipient or as funds are remitted to identify the amounts that are federal funds. Upon request, the Department will, after the close of the fiscal year, identify to the subrecipient the amount of federal funds received. OMB Circular A-133 (Subpart D-Federal Agencies and Pass-Through Entities .400 Responsibilities) requires that pass-through entities (1) inform the subrecipient of key information regarding the federal award (e.g., CFDA title, CFDA number) and also (2) “advise the subrecipients of requirements imposed on them by federal laws, regulations and the provision of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity”.

The Department believes that the specific contract provisions regarding required services and allowable activities for all funds is sufficient to meet any federal limitations on the use of block grant funds. We believe that controls to ensure that federal funds are used for authorized purposes in compliance with laws, regulations and the provisions of contract or grant agreements should be improved by meeting the specific requirements of OMB Circular A-133 cited above. The specific federal award should be described, as well as relevant compliance requirements, at the time of the federal award.

#### RECOMMENDATION

2001-62a      Identify the specific federal award and all relevant compliance requirements when funds are provided to subrecipients.

We also noted that Substance Abuse Block Grant funds were paid to a non-profit entity that operates the State’s detoxification and substance abuse treatment referral program. In fiscal 2001, the total contract amount was in excess of \$3.5 million of which approximately \$600,000 was considered Substance Abuse Block Grant Funds. Another contract with the same non-profit entity for approximately \$100,000 was considered all Block Grant funds.

The contracts provide for the submission of an annual audit report including Single Audit requirements. The Department had not received any audit reports from the non-profit entity for fiscal years 2000 and 2001 at the time of our audit. Audit reports were subsequently obtained for both fiscal years which were performed in accordance with OMB Circular A-133 audit requirements and included the Substance Abuse Block Grant as a major program.

The Department informed us that it had not requested audit reports from this non-profit entity because it considers the entity to be a vendor rather than a subrecipient. Audit reports were obtained and reviewed for other entities to which the Department passed-through Substance Abuse Block Grant Funds.

While classification of the Department’s relationship with the non-profit entity as vendor or subrecipient is subject to interpretation, there are specific contract provisions regarding activities allowed or unallowed that are consistent with those applicable to Substance Abuse Block Grant funds. These contract provisions suggest that the non-profit entity is responsible for compliance with program compliance requirements. Absent on-site financial monitoring

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procedures performed by the Department, compliance with these provisions could most effectively be assured through review of OMB Circular A-133 audit reports.

The Department should obtain and review audit reports for all entities as required by contract provisions and specifically those that have audits performed in accordance with OMB Circular A-133. The Department should ensure that it has effective procedures in place to ensure compliance with Substance Abuse Block Grant program requirements for federal funds passed through to other entities

Questioned costs: None

RECOMMENDATION

2001-62b      Ensure entities receiving Substance Abuse Block Grant Funds have complied with program requirements by obtaining and reviewing OMB Circular A-133 audit reports on a timely basis.

**Finding 2001-63**

RESEARCH AND DEVELOPMENT CLUSTER:

Sea Grant Support – CFDA 11.417

Aerospace Education Services Program – CFDA 43.001

Administered by: University of Rhode Island

REPORTING

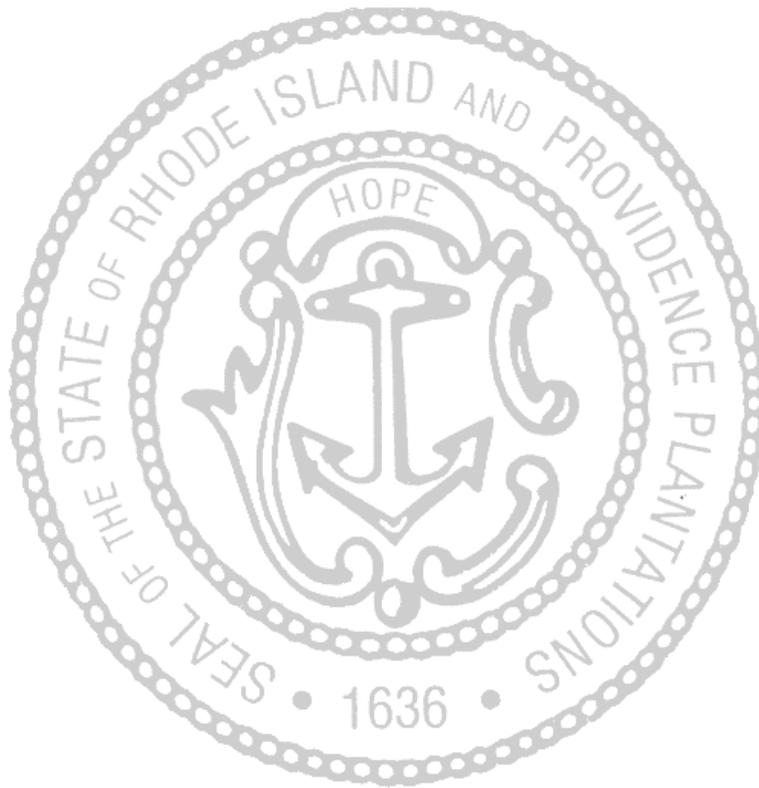
OMB Circular A-110 requires the timely submission of financial reports to federal awarding agencies. Seven of the 50 financial reports selected for testwork were not submitted within the timeframes required by the granting agencies.

Questioned costs: None

RECOMMENDATION

2001-63      Procedures should be reviewed to ensure that all federally required reports are filed within the timeframes established by the granting agencies.

## Corrective Action Plan



Corrective Action Plan -  
Findings Included in 2001 Single Audit Report

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**Finding 2001-1**

***Corrective Action:***

The Division of Accounts and Control has issued statewide policies and procedures to record all new fixed asset acquisitions since July 1, 1998. Two staff people have completed physical inventories of existing fixed assets (excluding infrastructure) and the inventory of state owned land and buildings. The state automobile fleet has been brought into the fixed asset reporting system. The accumulation of fixed asset data is planned to be completed in phases: land and buildings; all other fixed assets; infrastructure assets. This effort will be completed by June 30, 2002.

Contact person: Lawrence Franklin, Jr., State Controller  
Telephone: 401-222-6731; Fax: 401-222-6437;  
e-mail:lfrankli@doa.state.ri.us

**Finding 2001-2**

***Corrective Action:***

The Department of Administration has acquired new integrated, accounting software. The software we acquired does not have a module for debt and debt service accounting. We will be researching the functionality of other commercial, off-the-shelf software for this purpose to integrate with our general accounting software. Presently, the implementation of the general accounting software is underway and is planned to be implemented statewide at July 1, 2001. During this implementation, the Division of Accounts and Control will research debt accounting software, prepare a budget request to acquire it, and plan its implementation.

Contact person: Lawrence Franklin, Jr., State Controller  
Telephone: 401-222-6731; Fax: 401-222-6437;  
e-mail:lfrankli@doa.state.ri.us

**Finding 2001-3**

***Corrective Action:***

No corrective action is planned since a new statewide accounting system was implemented July 1, 2001.

Contact person: Lawrence Franklin, Jr., State Controller  
Telephone: 401-222-6731; Fax: 401-222-6437;  
e-mail:lfrankli@doa.state.ri.us

Corrective Action Plan -  
Findings Included in 2001 Single Audit Report

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**Finding 2001-4**

***Corrective Action:***

2001-4a

The State Controller has requested the Office of Library and Information Services (OLIS) to assign unique passwords to users of the on-line payroll accounting system. Action has begun but completion is not expected until June 2002 or later.

2001-4b

This recommendation cannot be completed until #2001-4a is completed. See action plan for #2001-4a.

Contact person:       Lawrence Franklin, Jr., State Controller  
                                  Telephone: 401-222-6731; Fax: 401-222-6437;  
                                  e-mail: lfrankli@doa.state.ri.us

**Finding 2001-5**

***Corrective Action:***

The Office of Library and Information Services (OLIS) has established a committee to prepare and write a disaster recovery/business resumption plan for all computer applications that utilize the State Operations Center in Johnston (ITOC). During FY2001, the committee prepared materials from which a plan was to be formulated as part of a report of the consultant to the evaluation of the Information Technology Operations Center (ITOC).

The preliminary version of the Facility Study, delivered in March of 2001 made it quite clear that the most cost effective way to proceed to a solution of the ITOC's problems was through renovation of the existing facility. Consequently, the second phase of the study was rewritten to focus on preparing a plan for the renovation of the entire ITOC. Part two of the study had originally been expected to add detail to programmatic, engineering, architectural and technology strategies, including a workshop on disaster prevention/business recovery. The consultant's work on disaster prevention/business recovery was thus postponed until the current year.

The Governor's FY 2002 budget had included \$200,000 for the remaining elements of the evaluation, including a disaster recovery/business resumption plan, as well as design work to begin implementation of the plan prepared by the evaluation study. Due to the present budget crisis, however, all funding for the ITOC has been put on hold along with numerous other capital projects.

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Contact person: Howard Boksenbaum, Chief Technology Officer  
State of Rhode Island and Providence Plantations  
Office of Library and Information Services  
Department of Administration  
One Capitol Hill, Providence, RI 02908  
voice (401) 222-5708 fax (401) 222-3151

**Finding 2001-6**

*Corrective Action:*

2001 – 6a

The Department has significantly reduced the amount of time from payment of a voucher to reimbursement from the federal government. This will be improved further with the implementation of the new financial management system. The new system will bill-in compliance with the Cash Management Improvement Act-automatically after a check is processed.

The Department has been reducing the cumulative earned but unbilled amount for the past six fiscal years. We will continue our effort to reduce this amount without sacrificing the approved Transportation Improvement Program.

2001 – 6b

The Department agrees and will modify the appropriation accounts and expenditures retroactive to July 1, 2001.

Contact person: Brian Peterson, Associate Director for Financial Management  
(401) 222-6590 ext. 4634

**Finding 2001-7**

*Corrective Action:*

See Corrective Action for Finding 2001-54.

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**Finding 2001-8**

***Corrective Action:***

See Corrective Action for Finding 2001-1.

**Finding 2001-9**

***Corrective Action:***

The Department of Administration will continue to explore with the General Treasurer the possibility of vesting responsibility for federal cash management within the Office of the General Treasurer.

Contact person:       Lawrence Franklin, Jr., State Controller  
                                  Telephone: 401-222-6731; Fax: 401-222-6437;  
                                  e-mail: lfrankli@doa.state.ri.us

**Finding 2001-10**

***Corrective Action:***

1.     Conduct of monthly physical inventory of all USDA commodities, and will reconcile discrepancies as needed.

This procedure had been put in place in the last fiscal year. However, whenever there is any staff absences during the time set aside for inventorying, the remaining staff are invariably pulled away from inventorying in order to perform other “immediate need” warehouse duties. The Department will be unable to establish an immediate backup plan due to the current state revenues fiscal situation. However, the Department is moving ahead with a plan to enhance the staffing of the Central Distribution Center through the utilization of inmate assistance. This plan may take up to a year to be fully implemented. Once implemented, we will be able to insure that staff are available for this regular physical inventorying requirement.

2.     Reduction of order filling errors.

Ideally, there are three points of verification of proper order filling.

1.     The warehouse worker selects the proper items.
2.     The warehouse supervisor verifies that the items selected match the items requested.
3.     The representative of the customer receiving the products also verifies the accuracy.

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In the past year, we have established a procedure whereby (1) staff label each USDA commodity case with the commodity number assigned by; and (2) the warehouse workers select the items by the USDA code numbers rather than the product label originally printed on the case.

The latter procedure has not been consistently followed. Hence, by March 31, the CDC administration will have notified all staff that disciplinary action will be taken when a pattern of not following this procedure is detected.

The second check point – the warehouse supervisor review – does not occur whenever staff shortages require that the supervisor work as a straw boss. This problem will be rectified eventually with the establishment of the inmate-assisted workforce noted above.

As to the third checkpoint, while we encourage customer reps to check the order at the dock, we cannot mandate this review.

### 3. Use of up-to-date technology in the warehouse operation.

The Department had set aside funds in its FY2002 budget to procure technology improvements, i.e., new software for order entry/inventory management and bar code production/reading equipment. Such systems would have the additional benefit of creating a more seamless integration of the warehouse operation and the related office functions.

However, the Governor's revised FY2002/2003 budget now requires that debt service for the CDC building, which had in the past been supported by general revenues appropriation to the Department of Administration, be absorbed by the internal service fund. Hence, we cannot go forward with the procurement of the systems improvement until we have determined whether the expenditure can be made without increasing the surcharge rate to customer agencies.

Contact person: Richard Frechette, Associate Director/CFO  
Department of Corrections  
Voice: (401) 462-2556  
Fax: (401) 462-3951

### Finding 2001-11

#### *Corrective Action:*

On a daily basis the Department of Human Services' (DHS) Office of Financial Management personnel track and reconcile funds entering, exiting and remaining in the Electronic Benefit Transfer (EBT) system. Authorizations, clearings, aging and various other transactions are taken from the Deluxe on-line reports and matched against federal food stamp activity on the

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AMA/ASAP system. A daily federal food stamp running balance (authorizations versus clearings) is maintained on an Excel spreadsheet and is reconciled daily with the ASAP Account Statement Inquiry screen. In addition to the process described above which reconciles Deluxe to ASAP on a daily basis, the INRHODES system is formally reconciled to Deluxe on a monthly basis. This process commenced on April 1, 2001 after the "FS Regular Payroll Select Totals" report was modified to break down federal and state dollars. DHS' current EBT reconciliation procedures confirms the transaction posted to the system.

Contact person: Kevin McCarthy  
(401) 462-6871

**Finding 2001-12**

***Corrective Action:***

2001-12a

Staff with access rights to the EBT terminals will be matched against a listing of persons with INRHODES rights. If those INRHODES rights allow the creation or modification of eligibility data, that person's EBT access rights will be terminated. Whenever a staff person is added to the EBT system, their current job title is noted on the access rights log and added to the database.

Anticipated completion date: April 1, 2002

2001-12b

The DHS Financial Management Unit will continue to maintain documentation of staff with access rights to the EBT system. The Department now receives, on a regular basis, a report from Deluxe Data that details all of the terminals in service and the clerk ID numbers active on each terminal. The clerk ID numbers are then matched against the database maintained by the Department. If it is found that a clerk is no longer at the job location where the terminal is located, they are deleted from the EBT system. If it is determined that an individual has changed a job title and that new title may allow dual access the individual's ID is removed from the EBT system.

Anticipated completion date: This procedure was implemented in November 2001.

Contact person: John Wenckelium  
(401) 462-6860

**Finding 2001-13**

***Corrective Action:***

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In order to adequately restrict and control access to Child Nutrition data in the SNACS computer system RIDE will take the following actions:

- 1) Require written account request forms for each individual that will be using the SNACS system, then assign a unique user ID and password to EACH individual.
- 2) Modify security in the WEB based application that will allow RIDE staff access to all sponsors information using their own userid/password rather than a sponsors userid/password.
- 3) Require ALL users (RIDE staff and users in the field) to change passwords on a 60 day basis.
- 4) Automatically disable user accounts if not accessed within 120 days (for purpose of allowing staff in districts ample time over summer).
- 5) Disconnect user if unable to enter correct userid/password within 3 attempts.
- 6) Restrict obvious password combinations.
- 7) Additionally, in order to capture sufficient information about user actions to provide a management audit trail, RIDE will add 4 fields, 1) date\_created, 2) created\_by, 3) date\_last\_updated, and 4) last\_updated\_by to several key tables in the system. These fields will then be updated each time a record is created or modified.
- 8) The changes should be rolled into SNACS-V2 that is currently being tested, and will be implemented by October 2002.

This corrective action plan is pending formal approval by the Board of Regents for Elementary and Secondary Education.

Contact persons:     Joseph Pangborn  
                                  (401) 222-4600 ext. 2234  
                                  Adrienne DiMeo  
                                  (401) 222-4600 ext. 2454

### Finding 2001-14

***Corrective Action:***

In order to fully meet all Federal Reporting requirements, RIDE is currently in the process of improving controls over federal reporting by resolving computer system design and implementation deficiencies.

RIDE staff are fully aware of shortfalls related to database design and/or application functionality. We are currently in the process of testing a new version of the SNACS computer system that addresses all issues mentioned in this finding. SNACS-V2 will include the following:

- 1) A redesigned database structure to track information more accurately,

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- 2) enhanced functionality regarding the payments/reimbursements process, (es, ability to pay an adjustment individually or ability to pay money back to a sponsor that is not deducted from next reimbursement amount)
- 3) ability to handle sponsors in multiple programs within school lunch,
- 4) accurate Severe Need Calculation,
- 5) modifications to existing screens and additional screens where needed, (e.g., more data on claim screen for approval process such as number of applications, or adult breakfasts served for severe need), and
- 6) modifications to existing reports and additional reports where needed, (e.g., cumulative reports).
- 7) new reports will be designed specifically for reconciling Federal financial reports with the State's accounting system.

This corrective action plan is pending formal approval by the Board of Regents for Elementary and Secondary Education.

Contact persons:     Joseph Pangborn  
                                  (401) 222-4600 ext. 2234  
                                  Adrienne DiMeo  
                                  (401) 222-4600 ext. 2454

**Finding 2001-15**

***Corrective Action:***

This contract began in July 2000 and Rockland Oaks was one of the first developments reviewed. Based on an initial interpretation of the RFP requirements, this office used a 10% sampling factor to determine the number of tenant files to be reviewed. This resulted in a sample size of three files, actually higher than the 10% test limit. Subsequent interpretation of the sampling requirements have resulted in the minimum of five units test being established. Since Rockland Oaks, our sampling sizes have been in compliance with HUD's requirements for sampling. Additionally since the initial review, a second annual review of Rockland Oaks has been conducted without findings.

Contact person:     John Gordon, Director of Asset Management  
                                  (401) 457-1223

**Finding 2001-16**

***Corrective Action:***

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At the onset of the contract, interpretation of the RFP specifications resulted in a determination that Contract Administrators were not required to perform any inspections, either primary or follow-up. Under a separate contract, an outside private company has been contracted by HUD to perform property and unit inspections and subsequent follow-ups on any deficiencies as well as additional unit inspections. Until HUD's first compliance review, our office was not aware of this requirement and therefore did not conduct any follow-up inspections on discrepancies noted in the private contractor's report. However, since July 2001, as a result of that Compliance Review, staff has followed up on all the latest inspections, including those completed by the private contractor, at developments during their scheduled annual reviews, to be sure that follow-ups are being performed.

Contact person:       John Gordon, Director of Asset Management  
                                  (401) 457-1223

**Finding 2001-17**

***Corrective Action:***

Municipal affairs was transferred to the Budget Office from the Office of Library and Information Services. Since an employee of the OLIS, Division of Planning was assigned to track staff time allocation and match, Municipal Affairs was left, at the time of transfer, with no employee assigned this responsibility.

It was the intention of this office to train staff in the process of tracking match expenditures subsequent to last year's audit. This process was delayed by an unanticipated long-term illness of the individual formerly assigned this responsibility. The Office of Municipal Affairs will work with the Central Business Office to assure that an appropriate individual is assigned these duties and trained, as necessary, to track matching costs and time allocation. Recurrence of this situation is not anticipated. This office is confident that sufficient match was provided during the audit period.

Contact persons:       Jeffrey A. Gofton, Municipal Affairs  
                                  (401) 222-2867  
                                  Louise Bright, Central Business Office  
                                  (401) 222-6603



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Contact person: Jeffrey A. Gofton, Municipal Affairs  
(401) 222-2867

**Finding 2001-20**

*Corrective Action:*

Department of Labor and Training staff will meet with representatives of the Office of the General Treasurer in order to identify and implement an acceptable cost allocation procedure, as recommended. The current interagency agreement will be modified to include this requirement.

Contact person: Paul Valliere, Associate Director  
(401) 462-8146

**Finding 2001-21**

*Corrective Action:*

The recommended adjustments will be made upon the approval of the revised cost-sharing plan by the Office of Cost Determination.

Contact person: Paul Valliere, Associate Director  
(401) 462-8146

**Finding 2001-22**

*Corrective Action:*

2001 – 22a

The Adult Dislocated Worker Unit (ADWU) has begun working with ISD to further automate areas of the report currently generated from ADWU's Trade program database. ISD will also work with the Business Affairs Unit to automate accumulation of payments by petition.

2001 – 22b

The ADWU will also add an additional supervisory level to review documentation for all data elements generated by ADWU including all queries developed from the existing system and all documentation in support of data queries.

2001 – 22c

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ADWU has commenced reporting NAFTA-TAA expenses to Business Affairs in order that these expenditures may be tracked and reported on separate NAFTA-TAA federal reports.

2001 – 22d

ADWU will work with other units supplying data for the ETA 563 to review the accuracy of previously submitted FY 2000 and FY 2001 reports and submit revised reports as necessary.

Contact persons: Sandra Powell, Employment and Training Coordinator  
(401) 462-8803

Bill Brock, Unemployment Insurance Coordinator  
(401) 462-8405

**Finding 2001-23**

***Corrective Action:***

Staff of the two Workforce Investment Areas will be required to maintain a spreadsheet for all accruals to include the following: invoice date, vendor and amount of invoice. This documentation, along with the expense ledgers, will be combined to produce the quarterly reports. This worksheet and the expense ledgers will be on file with each quarterly report as documentation for the report expenditures. Staff of the State Workforce Investment Office (SWIO) will monitor each program to ensure compliance. Corrective action will be implemented for the quarter ending March 31, 2002. Staff of the SWIO will also ensure that the federal Financial Status Reports include all reportable items. Administrative costs were included in the cumulative reports submitted for the quarter ended December 31, 2001.

Contact person: Richard Beneduce  
Chief, Employment & Training Programs  
(401) 462-8781

**Finding 2001-24**

***Corrective Action:***

To ensure compliance with the 95% low-income and 5% exception criteria, each Workforce Investment Area will be required to maintain a participant database to continually record and track compliance with this eligibility requirement, as recommended. This statistical report will be the basis as to whether or not youth applicants who meet other criteria, but do not meet the low-income criteria may be enrolled. Each Workforce Investment Area will submit a copy of this participant characteristic report with all other quarterly reports submitted to the SWIO. The

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SWIO will include this participant report as part of their monitoring procedures. Corrective action will be implemented for the quarter ending March 31, 2002.

Contact person: Richard Beneduce  
Chief, Employment & Training Program  
(401) 462-8781

**Finding 2001-25**

***Corrective Action:***

A project credit has been issued that both credited the federal government for the over billing and adjusted the project records.

Federal Highway and the Department did a review of all 100% projects (302) billed during fiscal year 2001. This was the only project billed in error.

This was an anomaly. It was the only project billed at an incorrect rate and to our knowledge this has never been a finding of the Single Audit. As such, we feel that it was simple human error and was not a result of a failure of internal controls.

Contact person: Brian Peterson, Associate Director for Financial Management  
(401) 222-6590 ext. 4634

**Finding 2001-26**

***Corrective Action:***

The Department agrees and will modify the appropriation accounts and expenditures retroactive to July 1, 2001.

Contact person: Brian Peterson, Associate Director for Financial Management  
(401) 222-6590 ext. 4634

**Finding 2001-27**

***Corrective Action:***

RIDE has instituted several corrective actions with regard to this recommendation. These include ceasing automatic advance start-up payments: in FY 97, allowing only monthly cash advance requests, and in FY 98 sending letters to sub-grantees who return significant amounts of cash or maintain excess cash on hand. The above listed procedures have resulted in some minor improvement: however, the issue is part of a larger cash management state issue. Any other

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procedural changes by RIDE are pending until the final recommendation from the U.S. Department of Education through the Cooperative Audit Resolution and Oversight Initiative (CAROI) and improvements in the State's new accounting system (RI SAIL).

This corrective action plan is pending formal approval by the Board of Regents for Elementary and Secondary Education.

Contact persons:     Adelita Orefice  
                              (401) 222-4600 ext. 2402  
                              Loreto Gandara  
                              (401) 222-4600 ext. 2410

### Finding 2001-28

***Corrective Action:***

Rhode Island Higher Education Assistance Authority (RIHEAA) concurs with the finding. RIHEAA was not aware of this condition prior to its discovery during Single Audit procedures performed by its independent auditors.

RIHEAA purchases data processing and other systems related to its Guaranteed Student Loan activities from the Student Loan Marketing Association (SMLA). These services include the systems and processes that are related to this finding.

Upon the discovery of the aforementioned condition, RIHEAA contacted SLMA and discussed the problem with SLMA representatives. SLMA has committed to analyzing the systems and procedures involved, and to perform a reconciliation between claims paid and accounts identified for collection activity. As of October 17, 2001, RIHEAA had received initial reconciliation reports from SLMA, and they were continuing to research the issue. In addition, RIHEAA is conducting internal reviews and developing procedures that will help prevent additional problems of this nature.

Contact person:     William H. Hurry, Jr., Executive Director  
                              (401) 736-1100

### Finding 2001-29

***Corrective Action:***

The 2000-2001 school year was the first year that financial aid was processed through our new student administrative system. Due to this conversion and related training issues these refunds were not returned within the required timeframes. The College is aware of the situation and is working to correct the problem.

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Contact person: Paul Forte, Assistant Vice President and Controller  
(401) 456-8225

**Finding 2001-30**

***Corrective Action:***

The SSCR was delayed in September 2000 due to implementation of our new student information system. All reports since that time have been submitted within the required time frame.

Contact person: Paul Forte, Assistant Vice President and Controller  
(401) 456-8225

**Finding 2001-31**

***Corrective Action:***

The Financial Aid Officer (FAO) in this case used professional judgement to base the need analysis on projected year income. This was documented in the file so the actual award amount should not be questioned. The FAO did make an error in not retaining the verification information on prior year income as required by verification regulations. According to notes in the file, the tax return had been reviewed but not retained. The FAO has been reminded of this requirement and instructed to fully verify and document prior year income even when the data is not used in the need analysis calculation.

Contact person: Paul Forte, Assistant Vice President and Controller  
(401) 456-8225

**Finding 2001-32**

***Corrective Action:***

The 2000-2001 school year was the first year that financial aid was processed through our new student administrative system. There were a few promissory notes that were not signed prior to the disbursement of the funds. The disbursement process has been reviewed and refined to avoid this problem in the future. In reference to the six students in question, the students were contacted and either did subsequently sign the promissory notes or the loans were canceled and the funds returned to the Perkins loan fund by June 30, 2001.

Contact person: Paul Forte, Assistant Vice President and Controller  
(401) 456-8225

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**Finding 2001-33**

***Corrective Action:***

The College implemented a new software system (PeopleSoft) for the 2000-2001 award year. Although the system provides functionality for the RFMS origination and disbursement process, we had some delay and difficulty with the implementation. Some of that difficulty has carried over into the current year. We are working through the problems as quickly as possible and expect to be in full compliance with origination and disbursement requirements soon. All of our 2000-2001 Pell disbursement records were fully reconciled with RFMS by the September 30, 2001 financial deadline.

Contact person: Paul Forte, Assistant Vice President and Controller  
(401) 456-8225

**Finding 2001-34**

***Corrective Action:***

DHS/ORS will create a file at the end of each quarter during the year to capture the client status data on that day. This will allow us to generate reports for use in preparing the RSA-2 annual report. A copy of this file will also be stored at an off-site facility.

Anticipated completion date: The next scheduled file back up is March 31, 2002.

Contact person: Jennifer Patrie, Office of Rehabilitation Services  
(401) 421-7005 ext. 313

**Finding 2001-35**

***Corrective Action:***

RIDE will implement procedures to ensure that maintenance of effort requirements are tested and verified for all applicable programs. Program officers will be responsible for setting up processes and procedures to ensure the review occurs on a timely basis and the information is on file. Finance and MIS staff will provide technical support.

This corrective action plan is pending formal approval by the Board of Regents for Elementary and Secondary Education.

Contact persons: Richard Latham  
(401) 222-4600 ext. 2371

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Raymond Capotosto  
(401) 222-4600 ext. 2414

**Finding 2001-36**

*Corrective Action:*

2001-36a, 36b, and 36c

An Interface Discrepancy Tracking System is under development to assist DHS field worker, supervisory and administrative staff to track discrepancies resulting from interfaces to insure they are completed in a timely manner. An on-line report will be generated each time an interface is run. The number of discrepancies resulting from the interface will be posted at the worker, unit, office and statewide level. Each time a worker completes the work resulting from a discrepancy, the number of discrepancies is reduced and the number of discrepancies completed is increased. The reports are updated overnight through a batch job. Additionally, the number of discrepancies that result in a referral to the Collections, Claims and Recovery Unit, the number of referrals that result in the establishment of a claim, the amount of the claim and the amount of dollars collected will be tracked for all TANF and Food Stamp discrepancies.

The report will be used as a tool by supervisory staff to monitor the timeliness of resolution by their workers. Additionally, senior supervisory and administrative staff will monitor these reports.

In order to ensure all staff are aware of the specific requirements and detail steps involved, a written procedural manual is being developed and will be submitted to staff. Training will be conducted for all staff involved in the I.E.V.S. process during the quarter beginning January 1, 2002.

Anticipated completion date: January 2002

Contact person: Paul McLaughlin  
(401) 462-2374

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**Finding 2001-37**

***Corrective Action:***

2001-37a

To strengthen control procedures to ensure program changes to software are properly controlled an e-mail, incident report will be forwarded to programmers of the Interface Team. Team leaders will be responsible to monitor the testing and implementation of the program changes.

2001-37b

The I.R.S. Interface Programs were corrected and implemented into production on August 22, 2001.

Contact person: Paul McLaughlin  
(401) 462-2374

**Finding 2001-38**

***Corrective Action:***

In accordance with Section 315 of OMB Circular A-133, CSE believes that this audit finding does not warrant any further action and requests that it be removed because all of the following have occurred:

- i. Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse
- ii. The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and
- iii. A management decision was not issued.

Contact person: Robert Farley, CSE Accounting  
(401) 222-3782

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**Finding 2001-39**

***Corrective Action:***

The agency has taken several steps since the audit period of review to strengthen the procedures and controls that ensure medical support is enforced.

CSE continues to send letters to all obligors who have an INRHODES order panel indicating that medical coverage was previously ordered by the court to be maintained, but the insurance company information is lacking. Obligor are instructed to file motions for relief with the court if they cannot provide the insurance as ordered by the court.

An INRHODES system enhancement was implemented in February 2001 that automatically produces motions for medical enforcement without the need for caseworker intervention.

In November 2001, CSE engaged the services of Policy Studies, Inc. to assist the Child Support Guidelines Task Force appointed by the Chief Justice of the R.I. Family Court in updating child support guidelines, including medical support. Policy Studies, Inc. is expected to finish this task in May 2002.

Contact persons: Sharon Santilli, CSE Legal  
(401) 222-2847  
Edward Keenaghan, CSE Systems  
(401) 222-2847

**Finding 2001-40**

***Corrective Action:***

An adjustment voucher for \$25,194.07 in interest earnings realized during the last two quarters of FY 2001 was submitted in March 2002. In the future, interest income will be reported on a quarterly basis.

Contact person: Robert Farley, CSE Accounting  
(401) 222-3782

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**Finding 2001-41**

***Corrective Action:***

2001 – 41a

The State Energy Office will set up a procedure to review subrecipient audits and issue management decisions in a more timely fashion as required by OMB Circular A-133 (Subpart D, Section .400).

2001 – 41b

Although we do not dispute this finding, it should be noted that we do not have a full-time accountant assigned to us to handle SEO's ever increasing fiscal and auditing needs. During this past year, the staff who reviews the subrecipient audits did attend a training seminar on Single Audit issues. We hope to be able to send our monitoring staff for additional training this year.

2001 – 41c

The LIHEAP Contracts will be changed to include the proper OMB Circular A-133 audit requirements.

2001 – 41d

The SEO will take more care in ensuring that subrecipient contracts are completely and properly signed and returned to our office in a timely manner.

Contact person: Janice McClanaghan, Chief Energy & Community Services  
(401) 222-6920

**Finding 2001-42**

***Corrective Action:***

The SEO will include a certification regarding Suspension and Debarment in all its contracts with subrecipient agencies and fuel vendor.

Contact person: Janice McClanaghan, Chief Energy & Community Services  
(401) 222-6902

**Finding 2001-43**

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***Corrective Action:***

FY 2001 was the first year that HHS required an FSR for the LIHEAP Program. We have asked the Fiscal Office to prepare and submit a report for 2001. We will also set up a time schedule to ensure that the FY 2002 FSR will be prepared and submitted with the required time frame.

Contact person: Janice McClanaghan, Chief Energy & Community Services  
(401) 222-6920

**Finding 2001-44**

***Corrective Action:***

In those cases when an entity's quarterly fiscal report reveals more than immediate cash needs are on hand, the Department will withhold payment to that entity. Prior to disbursing any further payments, the Department will require an additional report from the entity verifying that cash on hand has been spent.

Anticipated completion date: March 1, 2002

Contact person: Gail Dunphy  
(401) 462-6865

**Finding 2001-45**

***Corrective Action:***

2001-45a

The Department will strengthen measures to ensure timely receipt of subrecipient audits. The Department will issue notification letters to entities overdue in submitting audit reports within 30 days of due date. The Department will conduct timely reviews of audit reports and issuance of any required corrective action plans.

Anticipated completion date: March 1, 2002

2001-45b

The Department does employ several tools to monitor its subrecipients in order to insure compliance. Types of monitoring tools used by the Department include reviewing agency board minutes, attending agency program events, sponsoring training sessions for subrecipient staff, and attending agency association meetings. In most cases the Department's

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subrecipients are also receiving federal and state funds from several other state departments, therefore a statewide approach to onsite monitoring may be a more effective way to ensure that subrecipients are expending federal awards in compliance with laws and regulations. Site visits will be used by the Department as a monitoring tool, within current staffing constraints.

Anticipated completion date: March 1, 2002

2001-45c

The Department will issue any necessary management decisions within six-months of receipt of the audit report.

Anticipated completion date: March 1, 2002

Contact person: Gail Dunphy  
(401) 462-6865

**Finding 2001-46**

***Corrective Action:***

All cases found in error by the Auditor General will be corrected. An Operational Memo will be issued by the Administrator of Field Operations to delineate the correct policy and procedures to be followed when documenting income and authorizing benefits. The responsible supervisors will review the policy and procedures with social casework staff identified as making the errors cited in the Auditor General's report to insure an understanding of the correct policy and procedures that pertain to the treatment and documentation of income.

Anticipated completion date: February 28, 2002.

Contact person: Edward P. Sneesby  
(401) 462-2424

**Finding 2001-47**

***Corrective Action:***

It was discovered that the licensing documentation for the license year in question was missing from the one file, except for the licensing status sheet and the license. All documentation for the preceding and subsequent year was intact.

Corrective Action Plan -  
Findings Included in 2001 Single Audit Report

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The Licensing Senior Supervisor, would not have signed the approval of the license without proper documentation. This situation is an isolated incident and is not reflective of the high standard of quality that generates from Foster Care Licensing.

Contact person: Lee Sperduti, Licensing Administrator, DCYF  
(401) 528-3548

**Finding 2001-48**

***Corrective Action:***

Effective July 1, 2002 all contracts with child care institutions participating in the Foster Care/Title IV-E program, whether new, amended or revised, shall include a paragraph whereby the vendor can certify that the organization and its principals are not suspended or debarred from participating in federal awards. This will be performed on a go-forward basis.

Anticipated completion date: June 30, 2003

Contact person: Thomas M. Bohan, Esq., Executive Director, DCYF  
(401) 528-3548

**Finding 2001-49**

***Corrective Action:***

We will implement procedures to ensure the vendor payments match the authorized services and correct funding sources.

Anticipated completion date: July 1, 2002

Contact person: Jim FitzGerald  
(401) 462-1879

**Finding 2001-50**

***Corrective Action:***

2001-50a

The Department utilizes unique codes to identify the individuals eligible under the criteria as stated in section 1905 of the Social Security Act. The Division of HCQFP agrees to review and refine these procedures to enhance the control and the accumulation of the program costs. The Division will develop a standard reporting format.

Corrective Action Plan -  
Findings Included in 2001 Single Audit Report

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Anticipated completion date: June 30, 2002

2001-50b

The Division of HCQFP will review and determine the changes necessary to improve the INRHODES eligibility system to accurately reflect the SCHIP categories. This effort is limited by available resources. This task is dependent upon information presented at the time of application.

Anticipated completion date: December 31, 2002

Contact Person: Tricia Leddy  
(401) 462-2127

**Finding 2001-51**

***Corrective Action:***

See Corrective Action for Finding 2001- 50.

**Finding 2001-52**

***Corrective Action:***

The Division of HCQFP's Program Integrity unit recognizes the importance of a strong working relationship with the Attorney General's Medicaid Fraud Control Unit. During FY01, we cross-trained our staffs, with each member of the SURS unit spending a day at the Attorney General's office; representatives from our fiscal agent provided testimony in a fraud case; we supported the A.G.'s staff by supplying 25 data analyses, some covering periods of the last seven years. The Division will continue to review procedures to improve this relationship.

Anticipated completion date: Ongoing

Contact person: James L. FitzGerald  
(401) 462-1879

**Finding 2001-53**

***Corrective Action:***

The Department will research the cases identified and determine the value of any claims paid inaccurately during a period of ineligibility; all cases will not have a paid claim processed. Upon

Corrective Action Plan -  
Findings Included in 2001 Single Audit Report

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completion of this reconciliation, the federal share will be reimbursed within the required 60-day limit.

Anticipated completion date: March 31, 2002

Contact person: Frank Spinelli  
(401) 462-1892

**Finding 2001-54**

***Corrective Action:***

2001-54a

The Department agrees with the need to conduct such an audit. The Department has attempted, by issuing two RFP's for this purpose, to comply with this recommendation. In both instances there was no response. The Department has stated that this will be a requirement when the procurement contract for the MMIS is issued.

2001-54b

The Department is continuously updating policy and procedures to record and report data accurately. As the demand for expansion of claims processing for other agencies providing Title XIX funding increases, so will the need to expand our federal reporting capabilities. The billing and collection of drug rebates has also improved with invoices being reviewed and mailed in a timely manner. A review of disputed claim amounts and collection is programmed for completion by June 30, 2002. Third party liabilities are processed as soon as identified; there is improvement needed in collection, which is currently limited by time and resources.

Anticipated completion date: December 31, 2002

Contact person: James L. FitzGerald  
(401) 462-1879

Corrective Action Plan -  
Findings Included in 2001 Single Audit Report

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**Finding 2001-55**

***Corrective Action:***

2001-55a

Third party liabilities are identified as quickly as possible; unfortunately, Department staff can only verify data that is presented to them. The Division of HCQFP will review these procedures and determine where improvements can be initiated.

Anticipated completion date: December 31, 2002

2001-55b

The Department processes recoveries to the federal government within the required 60-day limit from time of identification of such recovery. The Division of HCQFP disagrees with the “questioned costs” of this recommendation. Facsimile claims are prepared and sent to other insurers when the coverage has been verified. Many of these claims have been denied for timely filing from the other insurer. These insurers have various time periods for submission of claims; some vary within plans of the same insurer. The Department cannot be held responsible for limitations set by other insurers; however, we will improve relations with these insurers to prevent recurrence of this.

2001-55c

The Department agrees with this recommendation and has proposed legislative changes requiring data matches with commercial insurers. Additionally, a match with the federal DEERS system was completed in December 2001.

Anticipated completion date: June 30, 2003

Contact person: James L. FitzGerald  
(401) 462-1879

**Finding 2001-56**

***Corrective Action:***

2001-56a

The Division of HCQFP and EDS, our fiscal agent, continue to work with other state departments to process their claims. The conversion to MMIS is a multi-task process beginning

Corrective Action Plan -  
Findings Included in 2001 Single Audit Report

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with an analysis of the department's needs, billing practices, provider enrollments, edits and reporting requirements.

Anticipated completion date: June 30, 2002

Contact person: James L. FitzGerald  
(401) 462-1879

2001-56b

The Department, with the cooperation of the Controller and Treasurer offices, implemented the issuance of checks to State agencies; this will reduce the processing of transfer vouchers. This also reflects the actual claims processed during a financial cycle for which the state agency is being reimbursed. This began in December 2001.

The Division of HCQFP will review the procedures currently used to establish per diem rates for state operated facilities. Upon completion of this review, recommendations will be implemented as identified.

Anticipated completion date: December 31, 2002

2001-56c

The department controls administrative expenditures through interagency agreements and approved cost allocation plans.

Contact person: John Young  
(401) 462-3575

**Finding 2001-57**

***Corrective Action:***

The Department has drafted and submitted proposed legislative changes requiring the hospital to submit their year-end settlements within two years of the close of their cost reports.

Anticipated completion date: July 1, 2002 or when passed.

Contact person: James L. FitzGerald  
(401) 462-1879

Corrective Action Plan -  
Findings Included in 2001 Single Audit Report

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**Finding 2001-58**

***Corrective Action:***

The Department recognizes the importance of maintaining accurate documentation in the provider files. The Division of HCQFP and EDS have initiated a review of the files to identify and correct errors in provider documentation.

Anticipated completion date: June 30, 2002

Contact person: James L. FitzGerald  
(401) 462-1879

**Finding 2001-59**

***Corrective Action:***

The reports are being reviewed and completed.

Anticipated completion date: May 31, 2002

Contact person: Paula Avarista  
(401) 462-6390

**Finding 2001-60**

***Corrective Action:***

The Department will review and improve the procedures in place with the Department of Health for timely notification of adverse action initiated by that agency against a provider enrolled in the Medicaid program. The case identified will be corrected and the federal share will be reimbursed.

Anticipated completion date: March 31, 2002

Contact person: James L. FitzGerald  
(401) 462-1879

Corrective Action Plan -  
Findings Included in 2001 Single Audit Report

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**Finding 2001-61**

***Corrective Action:***

As most contracts are either issued yearly or, if multi-year are subject to annual modification at the start of the State fiscal year, we anticipate having agreements contain language regarding this matter as of July 1, 2002. Although the finding pertains to Block Grant contract services, the debarment language will be incorporated in all Department contracts. The language will be drafted by Department legal counsel and distributed to all operating units for July 1, 2002.

Contact person:       John Murray  
                                  (401) 462-5698

**Finding 2001-62**

***Corrective Action:***

2001 – 62a

Accept the finding, with qualification.

Starting July 1, 2002, our SAPT Block Grant awards will identify the CFDA number, award name, and the amount of the federal award. As our current contract language delineates requirements imposed under federal law, regulation, plus other requirements that the State or this Department specify, we are satisfying this A-133 provision. Regarding the need for us to issue a management decision on audit findings, we accept this finding subject to the conditions that the SAPT Block Grant funds are designated as a major program in the subrecipient's audit, and that the SAPT Block Grant funds are a primary financier of the subrecipient's operations.

2001 – 62b

Our contract specifies that we must receive an audit from a contractor within 120 days of the close of the fiscal period. The Division has and continues to maintain a log which inventories the audit submission status for each contractor, and whether our review of the audit has been completed. While generally the log is inclusive, two circumstances contributed to the omission and the lack of immediate follow-up in this particular instance. The Division has measures in place to avoid this occurrence in the future.

Contact person:       John Murray  
                                  (401) 462-5698

**Finding 2001-63**

Corrective Action Plan -  
Findings Included in 2001 Single Audit Report

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*Corrective Action:*

Procedures are in place to monitor submission of reports to granting agencies in the time allotted; however, due to staffing shortages certain reports were not filed on a timely basis.

Contact person: Fred M. Dolor, Office of the Controller  
(401) 874-2378

Summary Schedule  
of Prior Audit Findings



<b>Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program</b>		
<b><u>Program Title</u></b>	<b><u>CFDA Number</u></b>	<b><u>Findings included in Previous Single Audit Reports</u></b>
Food Distribution	10.550	00-11
Food Stamp Cluster:		
Food Stamps	10.551	99-11, 99-12, 00-12, 00-13, 00-60
State Administrative Matching Grants for Food Stamp Program	10.561	97-10, 97-11, 98-7, 98-8, 98-10, 99-9, 99-10, 00-9, 00-10, 00-12, 00-13, 00-40
Nutrition Cluster:		
School Breakfast Program	10.553	97-11, 97-26, 98-8, 98-13, 99-10, 99-14, 00-10, 00-11, 00-14
National School Lunch Program	10.555	97-11, 97-26, 98-8, 98-13, 99-10, 99-14, 00-10, 00-11, 00-14
Special Milk Program for Children	10.556	97-11, 97-26, 98-8, 98-13, 99-10, 99-14, 00-10, 00-11, 00-14
Summer Food Service Food Program for Children	10.559	97-11, 97-26, 98-8, 98-13, 99-10, 99-14, 00-10, 00-11, 00-14
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	97-11, 98-8, 99-10, 00-10
Child and Adult Care Food Program	10.558	97-11, 97-26
Section 8 New Construction and Substantial Rehabilitation	14.182	00-15
Community Development Block Grants/ States Program	14.228	99-10, 00-10, 00-16, 00-17
Employment Services Cluster:		
Employment Service	17.207	97-11, 98-8, 99-10, 00-9, 00-10
Disabled Veterans' Outreach Program	17.801	98-8, 99-10, 00-9, 00-10
Unemployment Insurance	17.225	97-11, 98-8, 98-10, 99-10, 00-9, 00-10
Trade Adjustment Assistance – Workers	17.245	97-11, 98-8, 99-10, 00-9, 00-10, 00-20
JTPA Cluster:		
Employment and Training Assistance - Dislocated Workers	17.246	98-8, 98-16, 99-10, 99-19, 99-20, 00-9, 00-10, 00-18, 00-19
Job Training Partnership Act	17.250	98-8, 98-16, 99-10, 99-19, 99-20, 00-9, 00-10, 00-18, 00-19
Highway Planning and Construction	20.205	97-11, 98-8, 99-10, 00-10, 00-21
Federal Transit Cluster:		
Federal Transit - Capital Investment Grants	20.500	97-11, 98-8, 99-10, 00-10, 00-22, 00-23
Federal Transit - Formula Grants	20.507	97-11, 98-8, 99-10, 00-10, 00-22, 00-23
Freight Rail Improvement Project	None	00-10

<b>Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program</b>		
<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Title I Grants to Local Educational Agencies	84.010	97-11, 97-25, 97-26, 98-8, 98-13, 98-23, 98-24, 99-10, 99-14, 99-29, 00-10, 00-24, 00-25
Special Education Cluster:		
Special Education – Grants to States	84.027	97-27, 98-23, 99-10, 99-14, 99-29, 00-10, 00-14, 00-24, 00-26
Special Education – Preschool Grants	84.173	99-10, 99-14, 99-29, 00-10, 00-14, 00-24, 00-26
Federal Family Education Loans	84.032	00-27
Vocational Education – Basic Grants to States	84.048	FY96 p.E82, 97-11, 97-25, 97-26, 97-27, 97-28, 98-8, 98-13, 98-23, 98-24
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	97-10, 97-11, 98-7, 98-8, 98-10, 99-9, 99-10, 00-9, 00-10, 00-28, 00-29, 00-30, 00-31, 00-40
Safe and Drug-Free Schools and Communities	84.186	97-27
Tech-Prep Education	84.243	98-23
National Early Intervention Scholarship and Partnership	84.272	98-30
Goals 2000 – State and Local Education Systemic Improvement Grants	84.276	97-27, 98-23
Temporary Assistance for Needy Families	93.558	97-11, 98-8, 98-10, 98-35, 98-36, 99-10, 99-11, 99-32, 99-33, 00-10, 00-32, 00-33, 00-40, 00-60
Family Support Payments to States – Assistance Payments	93.560	97-10, 97-11
Child Support Enforcement	93.563	97-10, 97-11, 97-35, 98-7, 98-8, 98-10, 98-37, 99-9, 99-10, 99-34, 99-35, 00-9, 00-10, 00-34, 00-35, 00-36, 00-37, 00-38
Low-Income Home Energy Assistance	93.568	97-11, 98-8, 99-10, 00-10, 00-39
Community Services Block Grant	93.569	98-8, 98-40
Child Care Cluster:		
Child Care and Development Block Grant	93.575	00-10, 00-40
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	97-11, 98-8, 99-10, 00-10
Foster Care – Title IV-E	93.658	97-11, 98-8, 98-42, 99-10, 99-37, 00-10, 00-41
Adoption Assistance	93.659	97-11
Social Services Block Grant	93.667	97-11, 98-8, 98-10, 99-10, 00-10, 00-42, 00-43

<b>Summary Schedule of Prior Audit Findings Table of Prior Findings by Federal Program</b>		
<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	97-11, 98-8, 99-10, 00-10
State Survey and Certification of Health Care Suppliers and Providers	93.777	97-11, 98-8, 99-10, 00-10
Medical Assistance Program	93.778	97-11, 97-41 to 97-43, 97-45, 97-46, 97-48, 97-52, 98-8, 98-10, 98-43 to 98-48, 98-51, 98-53, 98-54, 99-10, 99-41 to 99-43, 99-45 to 99-47, 99-49 to 99-51, 00-10, 00-40, 00-41, 00-42, 00-44 to 00-56
Block Grants for Prevention and Treatment of Substance Abuse	93.959	97-11, 98-8
Social Security – Disability Insurance	96.001	99-9, 99-10, 00-9, 00-10, 00-40
Research and Development Cluster	Various	00-57, 00-58, 00-59

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
FY96	p.E82	84.048						
		Errors were made in determining the amount of indirect costs allocated to the federal program.						
		Adjust indirect costs as soon as the indirect rate is known.	1994					This finding is pending resolution through the federal Department of Education's CAROI process.
97-10	various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997					See status of finding 00-9
97-11	various	The State did not comply with the provisions of the Cash Management Improvement Act in drawing federal funds in reimbursement for most major programs. It also did not have sufficient monitoring procedures in place to ensure federal funds were drawn in compliance with requirements.						
	97-11a	Comply with cash management requirements when drawing funds for federal programs.	1995					See status of finding 00-10
	97-11b	Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.	1995					See status of finding 00-10
97-25		84.010 84.048						
	97-25	The department did not have adequate procedures in place to ensure subrecipients did not have federal cash on hand in excess of their immediate needs.						
		Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a).	1995					See status of finding 00-24

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
97-26	10.553	Monitoring of subrecipient audit reports needs to be improved.						
	10.555							
	10.556							
	10.558							
	10.559							
	84.010							
	84.048							
97-26a		Monitor the receipt of all required subrecipient audit reports and review such audit reports to determine if subrecipients complied with applicable program requirements.	1997	X				
97-26b		Ensure that appropriate corrective action is taken for all reported findings contained in subrecipient audit reports.	1997	X				
97-27	84.048	No documentation exists to support the allocation of certain costs.						
	84.027							
	84.186							
	84.276							
97-27		Document the methodology for allocating costs to multiple federal programs	1997					See status of finding 98-23; pending resolution through the federal Department of Education's CAROI process.
97-28	84.048	The Vocational Education Program was charged for the full cost of computers provided to employees who are assigned part-time to the program.						
	97-28	Adjust federal reports for the identified questioned costs.	1997					Pending resolution through the federal Department of Education's CAROI process.
97-35	93.563	The department did not reconcile child support collections and disbursements recorded in its computer system with amounts recorded in the State's accounting system.						
	97-35	Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	1992					See status of finding 00-34

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple- mented	Partially Imple- mented	Not Imple- mented	No Longer Valid	Comments
97-41	93.778	Control over payments to Medical Assistance Program providers was inadequate. The Department of Human Services did not have sufficient information to monitor the status of provider account balances and recoup interim payments. Additionally, the Department did not always have sufficient documentation of claims received and pending payment to support interim payments made.						
	97-41a	Eliminate routine target payments to providers.	1994	X				
	97-41b	Maintain adequate documentation demonstrating that a program liability has been incurred for interim payments made.	1994	X				
	97-41c	Complete the resolution of all provider interim payment balances expeditiously. Aggressively recoup all excess interim payment balances.	1997	X				
	97-41d	Implement additional controls to improve the reliability of provider balance data.	1997	X				
97-42	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
	97-42a	Document the investigation of eligibility variances between the MMIS and INRHODES computer systems and determine the amount of claims paid on behalf of ineligible individuals. Reimburse the federal government for its share.	1997					See status of finding 00-46
	97-42b	Improve control procedures to ensure that INRHODES eligibility data is accurately replicated in the MMIS.	1994					See status of finding 00-46
97-43	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
97-43a		Improve financial oversight of the fiscal agent, including verification of information from the MMIS used to prepare financial statements and federal reports.	1994					See status of finding 00-47
97-43b		Obtain an annual examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994					See status of finding 00-47
97-45	93.778	The department's plan and procedures to identify and collect third party liabilities were not fully operational in fiscal 1997, which prevented denial of certain claims when third party resources existed and limited actual reimbursement. The department also did not adequately monitor the activities of its fiscal agent with respect to third party identification and collection.						
97-45		Improve monitoring of the fiscal agent's TPL identification and collection procedures.	1997					See status of finding 00-49
97-46	93.778	Questioned costs totaling \$275,324 were identified during the fiscal 1997 audit.						
97-46c		Implement control procedures to ensure the allowability of expenditures charged to the Medicaid program by other departments.	1997	X				Questioned costs resolved; see Corrective Action Plan for finding 2001-56.
97-48	93.778	The MMIS does not require all system users to change passwords on a scheduled basis. System access controls should be improved by creating "roles" which more clearly define and restrict system access.						
97-48a		Develop procedures that require all MMIS users to change their passwords periodically. Terminate access if passwords are not modified.	1994	X				
97-48b		Develop procedures to control access to MMIS functions by assigning "roles" to MMIS users according to individual responsibilities and job descriptions.	1994	X				
97-52	93.778	Approximately \$78 million of Medicaid program expenditures were processed independently of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
97-52		Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997					See status of finding 00-51
98-7	various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997					See status of finding 00-9
98-8	various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
98-8a		Comply with cash management requirements when drawing funds for federal programs.	1995					See status of finding 00-10
98-8b		Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.	1995					See status of finding 00-10
98-10	10.561 17.225 84.126 93.558 93.563 93.667 93.778	The State's procedures for allocating certain personnel costs to programs and activities were not in compliance with OMB Circular A-87. Questioned costs were identified for various programs.						
98-10		Implement revised policies and procedures to allocate certain personnel costs to programs and activities that comply with federal cost principles (OMB Circular A-87)	1998	X				
98-13	10.553 10.555 10.556 10.559 84.010 84.048	RIDE did not have a system in place to monitor the receipt of subrecipient audit reports and to review the reports to determine whether there were instances of noncompliance with federal laws and regulations.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
98-13a		Monitor the receipt of all required subrecipient audit reports and review such audit reports to determine if subrecipients complied with applicable program requirements.	1997	X				
		98-13b	Ensure that appropriate corrective action is taken for all reported findings contained in the subrecipient audit reports.	1997	X			
98-16	17.246	Weaknesses in the controls over federal reporting for the JTPA program were found.						
	17.250							
	98-16a		Maintain reconciliations between amounts reported to the federal grantor and amounts derived from the FARS. (GRI and DWU)	1998	X			
	98-16b		Submit reconciliations along with the federal report to the JTPO. (GRI and DWU)	1998	X			
98-16c		Review reconciliations between amounts reported and amounts derived from the FARS.	1998	X				
98-23	84.010	No documentation exists to support the allocation of certain costs.						
	84.048							
	84.027							
	84.243							
	84.276							
98-23		Document the methodology for allocating costs to multiple federal programs.	1997					This finding is pending resolution through the federal Department of Education's CAROI process.
98-24	84.010	The department did not have adequate procedures in place to ensure subrecipients did not have federal cash on hand in excess of their immediate needs.						
	84.048							
98-24		Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.219(c), 80.37 (a) (4), and 31 CFR 205.10 (a).	1995					See status of finding 00-24; pending resolution through the federal Department of Education's CAROI process.
98-30	84.272	Documentation of certain eligibility requirements was inadequate.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	98-30	The Rhode Island Children's Crusade for Higher Education should verify the eligibility of student's who receive assistance.	1998	X				
98-35	93.558	State policy and procedures did not fully comply with the provisions of PRWORA.						
	98-35	Modify State policy to incorporate Federal TANF eligibility requirements	1998	X				
98-36	93.558	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						
	98-36	Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.	1998					See status of finding 00-32
98-37	93.563	The department did not reconcile child support collections and distributions recorded in its computer system with amounts recorded in the State's accounting system.						
	98-37a	Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	1992					See status of finding 00-34
	98-37b	Investigate and resolve the difference regarding child support collections pending distribution reported by the RICSS and State accounting systems.	1998					See status of finding 00-34
98-40	93.569	Subrecipient monitoring procedures need strengthening.						
	98-40	Strengthen subrecipient monitoring procedures to (1) ensure timely receipt of subrecipient audit reports and management letters, (2) ensure the timely review of audit reports and required corrective action plans, and (3) require alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements.	1998					See status of finding 00-43

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
98-42	93.658	Eligibility was not determined using the appropriate AFDC guidelines in effect as of July 16, 1996. Duplicate claims were generated by the Department's computer system used to accumulate maintenance costs for the program. Other costs allocated to the program based on the number of IV-E children may have been impacted by the use of inappropriate eligibility criteria.						
98-42a		Determine eligibility for the Foster Care program using AFDC program guidelines in effect as of July 16, 1996. Recalculate eligibility for those cases where TANF guidelines were used.	1998	X				
98-43	93.778	Control over payments to Medical Assistance Program providers was inadequate. The Department of Human Services did not have sufficient information to monitor the status of provider account balances and recoup interim payments. Additionally, the Department did not always have sufficient documentation of claims received and pending payment to support interim payments made.						
98-43a		Eliminate routine target payments to providers.	1994	X				
98-43b		Maintain adequate documentation demonstrating that a program liability has been incurred for interim payments made.	1994	X				
98-43c		Complete the resolution of all provider interim payment balances expeditiously. Aggressively recoup all excess interim payment balances. Refund the federal share of provider overpayments to the federal government with 60 days of identification.	1997	X				
98-43d		Implement additional controls to improve the reliability of provider balance data.	1997	X				
98-44	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
98-44a		Improve control procedures to ensure that INRHODES eligibility data is accurately replicated in the MMIS by documenting the timely investigation of eligibility variances between the MMIS and INRHODES computer systems.	1997					See status of finding 00-46

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
98-44b		Determine the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.	1998					See status of finding 00-46
98-45	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
98-45a		Improve financial oversight of the fiscal agent, including verification of information from the MMIS used to prepare financial statements and federal reports.	1994					See status of finding 00-47
98-45b		Obtain an annual examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994					See status of finding 00-47
98-46	93.778	A system security plan for the MMIS was under development but was not complete during fiscal 1998. System access controls should be improved.						
98-46c		Develop procedures that require all MMIS users to change their passwords periodically. Terminate access if passwords are not modified.	1994	X				
98-46d		Develop procedures to control access to MMIS functions by assigning "roles" to MMIS users according to individual responsibilities and job descriptions.	1994	X				
98-47	93.778	Delays in verifying TPL information contributed to lost TPL recovery. The department also did not adequately monitor the activities of its fiscal agent with respect to third party identification and collection.						
98-47a		Improve monitoring of the fiscal agent's TPL identification and collection procedures.	1997					See status of finding 00-49
98-47b		Reimburse the federal government for its share of uncollected third party liability recoveries.	1998					See status of finding 00-49
98-48	93.778	Questioned costs totaling \$42,733 were identified during the fiscal 1998 audit.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	98-48a	Reimburse the federal grantor for its share of claims paid on behalf of ineligible individuals and for questioned costs deemed unallowable.	1998				X	The audit finding does not warrant further action since 1) two years have passed since the finding was submitted to the clearinghouse, 2) the federal agency is not following up on the finding, and 3) a management decision has not been issued.
	98-48b	Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	1997					See status of finding 00-51
98-51	93.778	Approximately \$53 million of program expenditures were processed independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						
	98-51	Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997					See status of finding 00-51
98-53	93.778	Hospital cost reports are not submitted timely and therefore cost settlements are delayed.						
	98-53	Develop procedures to improve the timeliness of hospital settlements.	1998					See status of finding 00-52
98-54	93.778	DHS did not require either contractor or providers of medical services to certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program.						
	98-54a	Require all applicable contractors to certify annually that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program.	1998					See status of finding 00-53
	98-54b	Revise medical service provider agreements to include a certification that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program.	1998					See status of finding 00-53
99-9	Various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997					See status of finding 00-9

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
99-10	various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
	99-10a	Comply with cash management requirements when drawing funds for federal programs.	1995					See status of finding 00-10
	99-10b	Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.	1995					See status of finding 00-10
99-11	10.551 93.558	Controls over the delivery of food stamps and Temporary Assistance to Needy Families (TANF) benefits are weakened because some individuals have access to the Department's INRHODES eligibility system and Deluxe Data's EBT card personal identification number authorization system.						
	99-11a	Segregate responsibilities such that no individual has access to both initiate or modify case data within the Department's INRHODES system and the ability to generate EBT cards and establish personal identification numbers.	1999					See status of finding 00-60
	99-11b	Determine and document all individuals with access to the Deluxe Data EBT card authorization system.	1999					See status of finding 00-60
99-12	10.551	The EBT system operating during the year did not provide sufficient information to reconcile the total funds in the system each day as required.						
	99-12	Implement procedures to reconcile total funds entering into, exiting from and remaining in the EBT system each day.	1999					See status of finding 00-12
99-14	10.553	RIDE did not have a system in place to monitor the receipt of subrecipient audit reports and to review the reports to determine whether there were instances of non-compliance with federal laws and regulations.						
	10.555							
	10.556							
	10.559							
	84.010							
	84.027							
84.173								

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
99-14	99-14a	Monitor the receipt of all required subrecipient audit reports and review such audit reports to determine if subrecipients complied with applicable program requirements.	1997	X				
	99-14b	Ensure that appropriate corrective action is taken for all reported findings contained in the subrecipient audit reports.	1997	X				
99-19	17.246 17.250	Weaknesses in the controls over federal reporting for the JTPA program were found.						
	99-19	Prepare monthly reconciliations of JTPA program expenditures recorded in the Department's accounting system (FARS) with program expenditures recorded in the State accounting system.	1998	X				
99-20	17.246 17.250	Weaknesses in the monitoring of subrecipients of the JTPA program were found.						
	99-20	Improve subrecipient monitoring procedures for service delivery areas funded with JTPA funds.	1999	X				
99-29	84.010 84.027 84.173	RIDE did not have adequate procedures in place to ensure subrecipients did not have federal cash on hand in excess of their immediate needs.						
	99-29	Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37(a), and 31 CFR 205.10(a).	1995 84.010					Pending resolution through the federal Department of Education's CAROI process. See status of finding 00-24.
99-32	93.558	State policy and procedures did not fully comply with the provisions of PRWORA.						
	99-32	Modify State policy to incorporate Federal TANF eligibility requirements.	1998	X				
99-33	93.558	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
99-33	99-33a	Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.	1998					See status of finding 00-32
	99-33b	Maintain documentation supporting the resolution of data match discrepancies.	1999					See status of finding 00-32
99-34	93.563	The department did not reconcile child support collections and distributions recorded in its computer system with amounts recorded in the State's accounting system.						
	99-34a	Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	1992					See status of finding 00-34
	99-34b	Investigate and resolve the difference regarding child support collections pending distribution reported by the RICSS and State accounting systems.	1998					See status of finding 00-34
99-35	93.563	RICSS did not have an approved Indirect Cost Rate Proposal in effect during fiscal year 1999.						
	99-35	Submit the Indirect Cost Rate Proposal for approval before charging indirect costs; seek federal approval for indirect costs charged during fiscal 1999.	1999	X				
99-37	93.658	Testing of DCYF's cost allocation system for fiscal year 1999 noted several errors. The Department needs to improve its oversight of the cost allocation plan operated by a third party.						
	99-37c	Implement procedures to obtain reasonable assurance that the cost allocation plan is operating as designed.	1999	X				
99-41	93.778	DHS continued its practice of making "target" payments to certain providers. At June 30, 1999, 29 providers had outstanding interim payment balances exceeding \$100,000. Private group homes continue to receive these payments.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
99-41	99-41a	Eliminate remaining target payments to providers.	1994	X				
	99-41b	Complete the resolution of all provider interim payment balances expeditiously. Aggressively recoup all excess interim payment balances. Refund the federal share of provider overpayments to the federal government within 60 days of identification.	1997	X				
99-42	99-42	93.778 Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
	99-42b	Determine the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.	1998					See status of finding 00-46
99-43	99-43	93.778 The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
	99-43a	Obtain an annual examination ("SAS 70" review) performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994					See status of finding 00-47
	99-43b	Improve financial oversight of the fiscal agent, including verification of information from the MMIS used to prepare financial statements and federal reports.	1994					See status of finding 00-47
99-45	99-45	93.778 System access controls should be improved.						
	99-45a	Develop procedures that require all MMIS users to change their passwords periodically. Terminate access if passwords are not modified.	1994	X				
	99-45b	Develop procedures to control access to MMIS functions by assigning "roles" to MMIS users according to individual responsibilities and job descriptions.	1994	X				

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple- mented	Partially Imple- mented	Not Imple- mented	No Longer Valid	Comments
99-46	93.778	Delays in verifying TPL information contributed to lost TPL recovery. The department also did not adequately monitor the activities of its fiscal agent with respect to third party identification and collection.						
99-46a		Improve monitoring of the fiscal agent's TPL identification and collection procedures.	1997					See status of finding 00-49
99-46b		Reimburse the federal government for its share of uncollected third party liability recoveries.	1998					See status of finding 00-49
99-47	93.778	Questioned costs totaling \$6,373 were identified during the fiscal 1999 audit. Programming errors within the MMIS resulted in incorrect payments.						
99-47a		Reimburse the federal government for questioned costs deemed unallowable.	1999					See status of finding 00-50
99-47b		Implement control procedures to ensure the accuracy of claims payments calculated by the MMIS.	1999					See status of finding 00-50
99-47c		Instruct the fiscal agent to resolve MMIS programming problems resulting in incorrect payments to providers.	1999					See status of finding 00-50
99-47d		Determine extent of overpayments caused by MMIS programming problems; adjust claims paid incorrectly to recoup overpayments from providers.	1999					See status of finding 00-50
99-49	93.778	Approximately \$75 million of program expenditures were processed independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						
99-49a		Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997					See status of finding 00-51
99-49b		Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	1999					See status of finding 00-51
99-50	93.778	Hospital cost reports are not submitted timely and therefore cost settlements are delayed.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	99-50	Seek enforcement authority within the General laws to improve the timeliness of hospital settlements.	1998					See status of finding 00-52
99-51	93.778	DHS did not require either contractor or providers of medical services to certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program.						
	99-51	Revise medical service provider agreements to include a certification that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program.	1998					See status of finding 00-53
00-09	Various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997			X		See Corrective Action Plan for Finding 2001-8
00-10	Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
	00-10a	Comply with cash management requirements when drawing funds for federal programs.	1995			X		See Corrective Action Plan for Finding 2001-9
	00-10b	Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.	1995			X		See Corrective Action Plan for Finding 2001-9
00-11	10.550 10.553 10.555 10.556 10.559	Inventory record keeping and controls over the receipt and distribution of donated food commodities should be improved.						
	00-11	Improve controls over the receipt and distribution of donated food commodities by ensuring that all required forms are completed and recorded in the inventory records when goods are received, shipped, or damaged.	2000			X		See Corrective Action Plan for Finding 2001-10
00-12	10.551 10.561	The EBT system operating during the year did not provide sufficient information to reconcile the total funds in the system each day as required.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	00-12	Implement procedures to reconcile total funds entering into, exiting from and remaining in the EBT system each day.	1999			X		See Corrective Action Plan for Finding 2001-11
00-13	10.561	We noted control weaknesses relating to processing and accounting for collection transactions, and preparing the FNS-209 report.						
	00-13a	Strengthen internal procedures to ensure the timely reconciliation of systems and documentation supporting the FNS-209 report.	2000	X				
	00-13b	Adjust previously transmitted FNS-209 reports to properly reflect tax intercept amounts and request reimbursement for related overpayments	2000	X				
00-14	10.553 10.555 10.556 10.559 84.027 84.173	RIDE did not have a system in place to monitor the receipt of subrecipient audit reports and to review the reports to determine whether there were instances of non-compliance with federal laws and regulations.	1997	X				
00-15	14.182	The Corporation is required to deposit the year-end surplus into a "residual receipts" account within 60 days after year-end. We noted the average deposit made by the Corporation is in excess of 110 days.						
	00-15	The Corporation should tighten controls to ensure that the required deposits are made on a timely basis.	2000			X		RIHMFC directed a written instruction on December 14, 2000 to all project managers directing them to make deposits by the 60 <sup>th</sup> day following their fiscal year-ends. Additionally, a practice has now been instituted wherein reminder letters are mailed every 30 days after the initial 60 <sup>th</sup> day to project managers who have not made deposits by the 60 <sup>th</sup> day. Moreover, a log is kept of all such letters noting fiscal year-ends, dates of follow-up letters and dates of actual deposit. As a last measure, in the event of serious delinquency, our procedures allow monthly subsidy payments to be withheld from the owners until the residual receipt amount is determined and escrowed.
00-16	14.228	The Department did not monitor its compliance with the matching requirements of the Community Development Block Grant Program (CDBG).						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-16		Maintain documentation to support required State matching expenditures for administrative costs that exceed \$100,000.	2000			X		See Corrective Action Plan for Finding 2001-17
00-17	14.228	Certain salary and fringe benefit costs charged to the CDBG program were questioned.						
00-17		Allocate employees' salaries and fringe benefits to the appropriate activities based on completed weekly time sheets.	2000			X		See Corrective Action Plan for Finding 2001-18
00-18	17.246 17.250	Reconciliations should be performed between data recorded in the State accounting system and the Department's FARS. These reconciliations have not been performed since September 1998.						
00-18		Prepare reconciliations of JTPA program expenditures recorded in the Department's accounting system (FARS) with program expenditures recorded in the State accounting system.	1998	X				
00-19	17.246 17.250	The Job Training Partnership Office (JTPO) could not demonstrate that it adequately conducted program monitoring and oversight of the GRI during Fiscal 2000 as required by federal regulation 20 CFR 627.475.						
00-19		Ensure sufficient documentation is maintained to demonstrate program monitoring and oversight of service delivery areas in accordance with federal regulations.	1999	X				
00-20	17.245	The Department of Labor and Training (DLT) lacks adequate internal control procedures to ensure the reliability of data reported on federal report form ETA 563 ( <i>Quarterly Determinations, Allowance Activities and Reemployment Services Under the Trade Act – OMB No. 1205-0016</i> ).						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
00-20	00-20a	Develop internal control procedures to ensure the accuracy and completeness of ETA 563 report information. Report all information required by the instructions and in the manner specified.	2000		X			See Corrective Action Plan for Finding 2001-22
	00-20b	Maintain adequate detailed supporting documentation for amounts reported.	2000		X			See Corrective Action Plan for Finding 2001-22
	00-20c	Seek to automate the process using existing and more sophisticated systems.	2000		X			See Corrective Action Plan for Finding 2001-22
00-21	20.205	Amounts were inappropriately claimed and reimbursed with federal Highway Planning and Construction Program funds.						
	00-21a	Adjust federal reports and future drawdowns of federal funds for the amounts inappropriately claimed and reimbursed.	2000	X				
	00-21b	Strengthen internal control procedures to ensure that federal funds are not overdrawn.	2000	X				
00-22	20.500 20.507	The report of Disadvantaged Business Enterprise Awards for the period April 1, 1999 through September 30, 1999 was due in March 2000. An extension to November 30, 2000 was requested on October 5, 2000.	2000	X				
00-23	20.500 20.507	Compliance requirements require that each transit vehicle manufacturer, as a condition to bid on transit vehicle procurement in which FTA funds are involved, certify that it has an overall DBE goal approved by the FTA administrator, or that it has submitted an overall DBE goal and it has not been disapproved by the FTA administrator. There was one procurement bid for transit vehicles (99-20) which did not have a manufacturer's DBE goal.	2000	X				
00-24	84.010 84.027 84.173	RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
00-24		Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a).	1995		X			See Corrective Action Plan for Finding 2001-27
			84.010					
00-25	84.010	RIDE did not have a system in place during fiscal 2000 to monitor the receipt of subrecipient audit reports and to review the reports to determine whether there were instances of non-compliance with federal laws and regulations. Further, no other monitoring procedures were performed.						
			00-25	Evaluate overall subrecipient monitoring procedures for the Title I program to ensure that, collectively, procedures are adequate to provide reasonable assurance that subrecipients administer federal awards in compliance with applicable laws and regulations.	2000	X		
00-26	84.027 84.173	RIDE used budgeted amounts to allocate personnel costs for employees working on multiple activities or cost objectives but did not make any comparisons to actual time distributions for these employees.						
			00-26	Comply with OMB Circular A-87 requirements when using budget estimates for allocating personnel costs of employees working on multiple activities or cost objectives.	2000		X	
00-27	84.032	The institution is required to complete and return, within 30 days of receipt, student status confirmation reports sent by the National Student Loan Data System unless the institution expects to complete its next student status report within 60 days. Notification to the lender was not sent within the required timeframe for two of 25 students selected.						
			00-27	University policies should be strengthened in order to ensure that lenders are notified of change in status within the required timeframe.	2000	X		

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-28	84.126	The computer report used to prepare the fiscal year 2000 RSA-2 was not generated on the last day of the federal fiscal year. As a result, the case status data reported on this RSA-2 did not reflect end of the year information, as required.						
00-28		Generate reports on the last day of the federal fiscal year to ensure the accuracy of client status data reported on the RSA-2, or modify the computer system to allow retrieval of client status as of a prior date.	2000			X		See Corrective Action Plan for finding 2001-34
00-29	84.126	Case files tested did not contain documentation indicating that ORS sought comparable services and benefits from other programs.						
00-29		Document comparable services and benefits sought before providing vocational rehabilitation services.	2000	X				
00-30	84.126	ORS charged the Vocational Rehabilitation program income account (which is 100% federally funded) \$44,913 in settlement of a case lodged against it by one of its clients.	2000	X				
00-31	84.126	DHS did not make eligibility determinations within 60 days after an individual submits an application, as required by Federal regulation CFR 361.42 (a) (1).						
00-31		Complete eligibility determination within 60 days after application, unless the individual agrees to an extension of time or an extended evaluation is necessary.	2000	X				
00-32	93.558	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-32	00-32a	Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.	1998			X		See Corrective Action Plan for Finding 2001-36a
	00-32b	Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or benefit levels.	1999			X		See Corrective Action Plan for Finding 2001-36b
	00-32c	Investigate the reasons why certain case records lack evidence of either (1) resolution of the IEVS discrepancy or (2) evidence that the case worker had received electronic notice that the discrepancy existed.	2000			X		See Corrective Action Plan for Finding 2001-36c
00-33	93.558	Net disbursements reported on the <i>PMS-272</i> report exceeded expenditures reported on the <i>ACF-196</i> . This results in an overstatement of cash on hand.						
00-33		Prepare the <i>PMS-272</i> report using actual federal expenditures reported on the <i>ACF-196</i> financial report for the TANF program.	2000	X				
00-34	93.563	CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system.						
00-34a		Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	1992		X			See Corrective Action Plan for Finding 2001-38a
00-34b		Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems.	1998		X			See Corrective Action Plan for Finding 2001-38b
00-35	93.563	Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
	00-35a	Enhance control procedures to ensure that medical coverage information is recorded within the CSE INRHODES computer system on a timely basis when medical support is ordered by the court.	2000		X			See Corrective Action Plan for Finding 2001-39a
	00-35b	Initiate appropriate enforcement action for medical support orders.	2000		X			See Corrective Action Plan for Finding 2001-39b
00-36	93.563	CSE had not properly reported program income/uncashed checks. Federal HHS auditors had questioned previously claimed administrative costs.						
	00-36a	Report outstanding uncashed checks written-off in June 1999 for calendar 1998 as program income.	2000	X				
	00-36b	Resolve the findings contained in the federal audit report concerning the non IV-D share of program administrative costs claimed by the courts.	2000	X				
00-37	93.563	No adjustment was made for fiscal 2000 interest earnings on child support collections.						
	00-37	Record program income for the amount of allocated interest earnings on child support collections deposited in the State's General Fund.	2000		X			See Corrective Action Plan for Finding 2001-40
00-38	93.563	CSE did not have an approved Indirect Cost Rate Proposal in effect during fiscal year 2000.						
	00-38	Obtain approval of the indirect cost rate proposal before charging indirect costs; seek federal approval for indirect costs charged during fiscal 2000.	1999	X				
00-39	93.568	LIHEAP needs to improve its subrecipient monitoring procedures to ensure it fully meets its responsibilities as a pass-through entity and also to ensure that subrecipients are complying with program requirements.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-39	00-39a	Implement a new audit report review checklist, which reflects current OMB A-133 guidelines. Train personnel responsible for review of subrecipient audit reports on relevant Single Audit topics.			X			See Corrective Action Plan for Finding 2001-41
	00-39b	Issue management decisions within 6 months of receipts of the audit report on all findings (applicable to LIHEAP) contained in subrecipient audit reports.				X		See Corrective Action Plan for Finding 2001-41
00-40	10.561 84.126 93.558 93.575 93.778 96.001	DHS over allocated central service costs in fiscal years 1998 and 1999. The department planned to defer allocating statewide central service costs until prior year overcharges were offset. DHS did not seek federal approval for this planned method of reimbursement. Unallowable costs were included in the indirect cost pool.						
	00-40a	Seek concurrence from the federal Division of Cost Allocation (DHHS) for the method of reimbursing the federal government for central service cost overcharges in prior years.	2000				X	During state fiscal year 2001 DHS did not allocate statewide central service costs until the prior year overcharges were offset.
	00-40b	Reimburse the federal government for questioned costs deemed unallowable.	2000	X				
00-41	93.658 93.778	DCYF has no procedures in place to ensure the accuracy of administrative costs determined by the cost allocation system. The department does not obtain and review the supporting documentation of the cost allocation system generated by the consultant each quarter.						
	00-41a	Adjust federal reports and claims for reimbursement for questioned costs relating to the overstatement of administrative expenditures for fiscal year 2000.	1999		X			The Foster Care adjustment was completed. The Medical Assistance portion was not completed.
	00-41b	Enhance controls over the cost allocation process by (1) implementing additional oversight of the cost allocation system operated by the consultant and (2) verifying input data which is critical to the operation of the plan.	1999	X				
00-42	93.667 93.778	Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-42		Strengthen procedures to ensure that vendor billings for homemaker services are verified as to funding source, authorization period and authorized hours prior to payment.	2000			X		See Corrective Action Plan for Finding 2001-49
00-43	93.667	DHS's subrecipient monitoring procedures, particularly for entities expending less than \$300,000 in federal awards, may not be sufficiently comprehensive to ensure federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements.						
00-43		Strengthen subrecipient monitoring procedures to provide reasonable assurance that subrecipients are expending federal awards in compliance with laws, regulations and the provisions of the grant agreement.	2000			X		See Corrective Action Plan for Finding 2001-45
00-44	93.778	DCYF made payments on behalf of one child who was ineligible for Medicaid.						
00-44		Determine the amount of claims paid on behalf of children ineligible for Medicaid and make all necessary reimbursements to the federal government.	2000	X				
00-45	93.778	DHS continued interim payments or "target" payments to a limited number of providers during fiscal 2000. Subsequent to June 30, 2000, target payments were suspended for these remaining providers.						
00-45		Complete the resolution of all provider interim payment balances expeditiously. Aggressively recoup all excess interim payment balances. Refund the federal share of provider overpayments to the federal government within 60 days of identification.	1994	X				
00-46	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
00-46		Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.	1997			X		See Corrective Action Plan for Finding 2001-53

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-47	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
00-47a		Obtain an annual examination ("SAS 70" review) performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994			X		See Corrective Action Plan for Finding 2001-54a
00-47b		Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.	1994			X		See Corrective Action Plan for Finding 2001-54b
00-48	93.778	System access controls should be improved.						
00-48a		Develop procedures that require all MMIS users to change their passwords periodically. Terminate access if passwords are not modified.	1994	X				
00-48b		Develop procedures to control access to MMIS functions by assigning "roles" to MMIS users according to individual responsibilities and job descriptions.	1994	X				
00-49	93.778	Delays in verifying TPL information contributed to lost TPL recovery.						
00-49a		Review existing procedures to ensure that third party liabilities are identified on a timely basis.	1997			X		See Corrective Action Plan for Finding 2001-55
00-49b		Reimburse the federal government for its share of uncollected third party liability recoveries.	1998			X		See Corrective Action Plan for Finding 2001-55
00-50	93.778	Questioned costs were identified during the fiscal 2000 audit. Programming errors within the MMIS resulted in incorrect payments.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-50		Instruct the fiscal agent to correct the MMIS programming for over-the-counter pharmaceutical claims. Determine the extent of overpayments caused by MMIS programming problems; adjust claims paid incorrectly to recoup overpayments from providers.	1999	X				
00-51	93.778	Approximately \$90 million of program expenditures were processed independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						
00-51a		Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997			X		See Corrective Action Plan for Finding 2001-56
00-51b		Ensure payments to state facilities are consistent with actual claims adjudicated by the MMIS. Review and approve all internal accounting transactions authorizing payment of Medicaid funds to State facilities.	2000			X		See Corrective Action Plan for Finding 2001-56
00-51c		Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	1997			X		See Corrective Action Plan for Finding 2001-56
00-52	93.778	Hospital cost reports are not submitted timely and therefore cost settlements are delayed.						
00-52		Seek enforcement authority within the General laws to improve the timeliness of hospital settlements.	1998			X		See Corrective Action Plan for Finding 2001-57
00-53	93.778	DHS did not require contractors or providers of medical services to certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program.						
00-53		Require all Departments expending Medicaid funding to include certifications that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program in all contracts.	1998			X		See Corrective Action Plan for Finding 2001-58
00-54	93.778	DHS did not continue the process of identifying checks outstanding for more than 180 days and returning the federal share of those checks to the federal government.						

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-54		Identify checks outstanding for more than 180 days and reimburse the federal government for its share on a semi-annual basis.	2000	X				
00-55	93.778	DHS has not submitted the required Drug Use Review Program reports for fiscal years 1998 and 1999.						
00-55		Prepare and submit the required Medicaid Drug Use Review Agency Report annually.	2000			X		See Corrective Action Plan for Finding 2001-59
00-56	93.778	DHS claimed expenditures after the period of availability for Medicaid funds.						
00-56		Reimburse the federal government for questioned costs deemed unallowable.	2000	X				
00-57	R&D Cluster	The University failed to take follow-up action when a subrecipient's audit report indicated questioned costs.						
	10.206 66.500							
00-57		We recommend that the University strengthen its procedures over subrecipient monitoring to ensure that the required reports are received and appropriate follow-up procedures are performed.	2000	X				
00-58	R&D Cluster Various	Six of 20 financial reports selected for testing were not submitted within the timeframes required by the granting agencies.						
00-58		Procedures should be reviewed to ensure that all federally required reports are filed within the required timeframes established by the granting agencies.	2000			X		See Corrective Action Plan for Finding 2001-63
00-59	R&D Cluster	Activity reports for non-classified employees were not submitted in a timely manner.						
	93.999							

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-59		Procedures should be reviewed to ensure that effort reporting is performed in a timely basis in order to appropriately capture all costs associated with federal grants.	2000	X				
00-60	10.551 93.558	Controls over the delivery of food stamps and Temporary Assistance to Needy Families (TANF) benefits are weakened because some individuals have access to the Department's INRHODES eligibility system and Deluxe Data's EBT card personal identification number authorization system.						
00-60a		Segregate responsibilities such that no individual has access to both initiate or modify case data within the Department's INRHODES system and the ability to generate EBT cards and establish personal identification numbers.	1999			X		See Corrective Action Plan for Finding 2001-12
00-60b		Determine and document all individuals with access to the Deluxe Data EBT card authorization system.	1999			X		See Corrective Action Plan for Finding 2001-12

**Mission**

***“The Office of the Auditor General exists to support the State Legislature and Federal Government in meeting their constitutional responsibilities and to help improve the performance and accountability of government”***